



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

June 14, 2010

The Honorable City Council  
Palo Alto, California

### Finance Committee Recommendation to Accept the Auditor's Office Audit of Fleet Utilization and Replacement

At its meeting on April 20, 2010, the Finance Committee unanimously recommended to the City Council acceptance of the Auditor's Office Audit of Fleet Utilization and Replacement. The Finance Committee also directed City Staff and the City Auditor to return to the Finance Committee in January with a report on the implementation efforts and directed the City Auditor to identify any areas where there had been resistance from Staff. The Committee also directed the City Auditor to add two additional items to the work plan: 1) determine whether there had been a spike in fuel during 2009 and the causes, and 2) determine if the City is purchasing the right size vehicles at the best price. Excerpt of minutes are attached.

Respectfully submitted,

A handwritten signature in cursive script that reads "Lynda Flores Brouchoud".

Lynda Flores Brouchoud  
City Auditor

Attachments:

- *Attachment 1* - Auditor's Office Audit of Fleet Utilization and Replacement
- *Attachment 2* – Excerpt of Finance Committee Minutes of April 20, 2010

Office of the City Auditor

**AUDIT OF FLEET  
UTILIZATION AND  
REPLACEMENT**



**OFFICE OF THE CITY AUDITOR**

**APRIL 2010**

# City of Palo Alto

*Office of the City Auditor*

April 14, 2010

Honorable City Council  
Attn: Finance Committee  
Palo Alto, California

## **AUDIT OF FLEET UTILIZATION AND REPLACEMENT**

In accordance with the FY 2010 Annual Audit Work Plan, the City Auditor's Office has completed an audit of the City's fleet utilization and replacement as administered through the Equipment Management section of the Public Works Department (referred to as PWD fleet management).

In Fiscal Year 2009, the City's vehicle and equipment fleet had 630 units, including 461 rolling stock and 169 non-rolling stock units. PWD fleet management estimates the fleet inventory value at over \$32 million before depreciation, and approximately \$10.5 million after depreciation. The audit contains three main findings:

**Finding 1: The City recently avoided spending about \$2.5 million in Fiscal Year 2010 through a temporary freeze on non-urgent fleet replacements (of which \$948,000 would have been for underutilized units), but longer term efficiencies can be realized through reducing the City's vehicle and equipment fleet.** Our analysis found that over 35% of transport vehicles and 25% of City trucks and equipment did not satisfy minimum utilization criteria. The audit recommends that PWD fleet management develop an action plan for increasing utilization and identify an optimal fleet size and composition. The audit also recommends alternatives to permanently assigning vehicles such as implementation of a centralized Citywide vehicle and equipment pool, rotating vehicles, exploring opportunities to rent specialized equipment or seasonal use equipment, and increasing use of mileage reimbursement.

**Finding 2: Funding stability and improved processes are needed to adequately fund fleet replacement and maintenance.** The City's budget process allocates most vehicle and equipment expenses (including replacement, operation, and maintenance costs) across user departments. Our analysis found that the charges to user departments did not cover the full cost for operating the fleet. The fleet addition approval process did not consistently identify or budget for the amount of on-going maintenance and replacement costs. These factors contributed to declines in the Vehicle Replacement Fund reserve balances during FY 2007 and FY 2008.

**Finding 3: Internal controls over fuel and parts inventory can be improved.** The City spends over \$900,000 on fuel and nearly \$800,000 on auto parts each year. Our analysis found discrepancies between the consumption reports and inventories for CNG, unleaded, and diesel fuels. We also found that a physical parts inventory had not been conducted for at least six years. PWD fleet management is in the process of replacing the fuel management system and anticipates the new system will provide improved controls to reconcile fuel purchases and inventories, and limit fuel access. PWD fleet management is also in the process of constructing a secure parts stockroom and surveying the inventory.

## Attachment 1

Our report includes a total of 22 recommendations to achieve greater efficiencies in the use of City fleet resources and to improve fleet policies and procedures. We thank the staff in the Public Works Department, Public Works fleet management, City Manager's Office, City Attorney's Office, the Administrative Services Department, Community Services Department, Fire Department, Human Resources Department, Library Department, Planning and Community Environment Department, Police Department and Utilities Department for their assistance and cooperation during our review.

I will present this report to the Finance Committee on April 20, 2010.

Respectfully submitted,



Lynda Flores Brouchoud

City Auditor

Audit Staff: Edwin Young, Senior Auditor

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## Introduction

In accordance with the FY 2010 Annual Audit Work Plan, the City Auditor's Office has completed an audit of the City's fleet utilization and replacement as administered through the Equipment Management section of the Public Works Department (hereafter referred to as PWD fleet management).

We conducted the 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.

The City Auditor's Office would like to thank the staff of the Public Works Department, Public Works fleet management, City Manager's Office, City Attorney's Office, the Administrative Services Department, Community Services Department, Fire Department, Human Resources Department Library Department, Planning and Community Environment Department, Police Department and Utilities Department for their time, information, insight, and cooperation during the audit process.

## Background

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In FY 2009, the City's vehicle and equipment fleet had 630 identified units, including 461 rolling stock and 169 non-rolling stock units. Rolling stock inventory includes transport vehicles such as sedans, light pick-up trucks, and passenger vans; special purpose vehicles; heavy equipment such as loaders and backhoes; and emergency-response/public safety vehicles. Non-rolling stock inventory includes trailers, compressors, generators, and other miscellaneous items. PWD fleet management estimates the inventory of vehicles and equipment is valued at over \$32 million before depreciation and approximately \$10.5 million after depreciation. The breakdown by type is shown below.

**Exhibit 1: City Fleet Distribution by Type**

<b>Category</b>	<b>Description</b>	<b>Total</b>
<b>Rolling Stock</b>		
Police Public Safety	Police Patrol	43
	Police Motorcycle	9
Fire Public Safety	Ambulance	4
	Fire Engine	14
Transport	Automobiles (sedan)	58
	Compact Truck/van (light pick-up or van)	68
Special Purpose Trucks	Light duty trucks	116
	Heavy Truck	70
Equipment	Metered Equipment	70
Miscellaneous	Miscellaneous	9
<b>Total Rolling Stock</b>		<b>461</b>
<b>Non-Rolling Stock</b>		
	Trailers	102
	Generators, Compressors, and Other Metered Equipment	40
	Miscellaneous	27
<b>Total Non-Rolling Stock</b>		<b>169</b>
<b>Total Rolling and Non-Rolling Stock</b>		<b>630</b>

Source: City Auditor Analysis of Fleet Focus Database

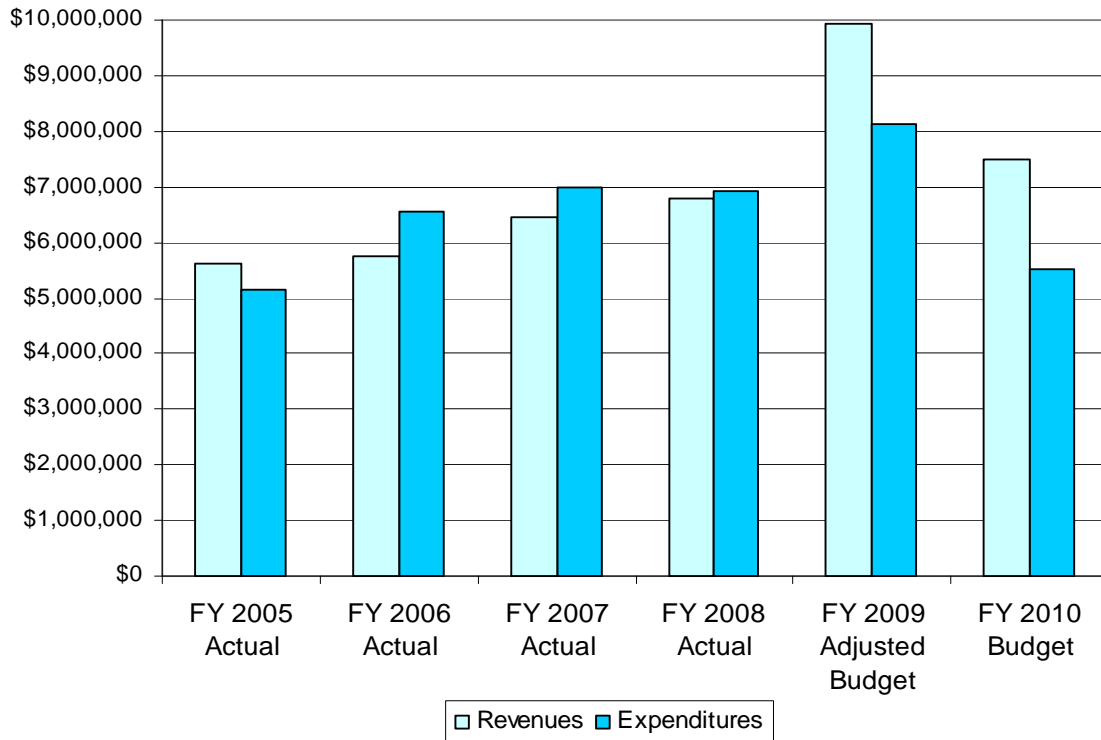
**Vehicle Replacement Fund**

The City's vehicle and equipment program is typically funded through the Vehicle Replacement Fund (Vehicle Fund), with additional funding allocated through the City's Capital Improvement Program (CIP) for specific purchases. The Vehicle Fund's core activities include vehicle and equipment replacement, preventive maintenance, repairs, fueling, and service to the City departments. This internal service fund recovers its costs through user charges paid by each department. The user charges are included in the department budgets under the "allocated charges" expenditure category.

In FY 2009, the Vehicle Fund's budgeted revenues were \$9.9 million and budgeted expenditures were \$8.1 million. FY 2010 revenues are projected at \$7.5 million and total expenditures are projected to be \$5.5 million. The Vehicle Fund's revenues primarily come from charges allocated to those City departments with assigned vehicles and equipment. As shown in Exhibit 2 below, the Vehicle Fund's expenditures exceeded revenues from FY 2006 through FY 2008, requiring transfers from the Fund reserves. Finding 2 of this audit report provides further discussion and analysis.



**Exhibit 2: Vehicle Replacement Fund Revenue and Expenditures**



Source: City Operating and Capital Budgets, Fiscal Years 2005- 2011

**Public Works Department Fleet Management**

The Public Works Department’s fleet management section administers the City fleet program. Fleet management maintains a database of the vehicle and equipment inventory called Fleet Focus. The fleet management staff consists of 16.2 budgeted full-time equivalents (FTEs). According to the City’s budget documents, the fleet management “provides timely replacement of vehicles and equipment in accordance with prescribed schedules to ensure the safe, reliable, and efficient operation of vehicles and equipment through systematic preventive maintenance and cost effective repairs. It also provides safe, efficient fuel storage and dispensing facilities while pursuing alternative fuel technologies and minimizing the pollution and carbon footprint generated from the City’s vehicle fleet.”

**City Replacement and Utilization Policies**

City Policy and Procedures 4-01/PWD (Vehicle and Equipment Use, Maintenance, and Replacement, April 2005) establishes regulations for the use, maintenance and replacement of vehicles and equipment in the City’s fleet. Minimum utilization for City vehicles and equipment is 2,500 miles or 50 hours per year for metered equipment. If the minimums are not met, waivers are required.

Replacement varies by the type of vehicle and equipment. A copy of the fleet replacement criteria contained in City Policy and Procedures 4-01/PWD, can be found in Attachment 1.

## Audit Scope and Methodology

To evaluate the economy, efficiency, and effectiveness of the City's vehicle and equipment replacement and utilization, we reviewed the following:

- Analyzed the City's fleet utilization and replacement policies and practices;
- Evaluated the fleet database information for completeness and accuracy;
- Reviewed the adequacy of internal controls over the City's fuel purchases and use; and
- Reviewed fleet management's strategy for promoting the goals of the City's Climate Protection Plan.

We limited our audit scope to the areas noted above for the City's non-emergency vehicle and equipment fleet, with a focus on Fiscal Years 2007 through 2009. We did not conduct extensive utilization reviews of the emergency vehicle fleet, but did review the emergency fleet for opportunities to reduce costs through rotation.

To achieve our audit objectives, we reviewed the City Municipal Code and City policies and procedures. We analyzed the fleet management database (called Fleet Focus), compiled data from the City's financial system and budget documents. We quantified the miles driven per vehicle and equipment usage by hours. We also tested fuel and inventory controls and conducted a physical inventory for a sample of vehicles and equipment. Audit staff visited fleet management staff and facilities in the nearby cities of Sunnyvale, Redwood City, and Mountain View. We also reviewed additions and disposals from the City fleet, examined vehicle logs, and analyzed cost allocation amounts used to charge individual departments for vehicle and equipment costs. We tested the accuracy of the fleet management database and tables used by the fleet management staff and concluded they were not completely accurate, but could be used as part of our analysis. We also reviewed fuel purchases and invoices, and internal controls over parts inventory.

We met with City staff in the Public Works Department, Public Works fleet management, the Administrative Services Department, City Attorney, City Manager, Community Services Department, Fire Department, Human Resources, Library, Planning and Community Environment Department, Police Department and Utilities Department. We also reviewed the 1993 Palo Alto City Auditor report on underutilized vehicles.<sup>1</sup>

We reviewed California State laws and regulations related to emissions requirements for vehicle and equipment replacement, operations and maintenance programs, and alternative fuel programs. We read previous reports related to vehicle and equipment use issued by the California State Auditor, the City of San Jose, and other audit entities.

<sup>1</sup> In 1993, the Palo Alto City Auditor issued an "Audit of City Vehicle Use" and reported that 35% of the cars and trucks did not meet minimum use requirements.

**Finding 1: The City recently avoided spending about \$2.5 million in Fiscal Year 2010 through a temporary freeze on non-urgent fleet replacements (of which \$948,000 would have been for underutilized units), but longer term efficiencies can be realized through right sizing the City's vehicle and equipment fleet**

The City has faced persistent budget challenges and projects a budget shortfall for FY 2011. It is imperative that the City's fleet funds are utilized efficiently and effectively and additional savings obtained wherever possible.

The City of Palo Alto's fleet consists of an estimated 630 units (461 rolling stock units and 169 pieces of non-rolling stock equipment). City policy sets minimum use requirements for the City fleet at 2,500 miles or 50 hours per year for metered equipment.<sup>2</sup> 6 Our analysis found that over 35% of the transport vehicles and over 25% of the equipment in the City fleet did not satisfy the annual minimums. Based on available information, the City's annual cost for the underutilized transport vehicles is \$396,000; cost data was not available for the equipment.

We shared our preliminary audit findings with PWD fleet management and its staff proactively implemented our proposed audit recommendation to temporarily freeze non-urgent vehicle and equipment replacements until the fleet size is reduced and utilization increased. As a result, in 2009 the City froze the budget for vehicle and equipment replacements for FY 2010. This action saved approximately \$2.5 million in planned replacements, including \$948,000 for underutilized vehicles.

Our analysis indicates more can be done to reduce the size and cost of operating the City's fleet of vehicles and equipment. These options include (1) offering alternatives such as pooling of vehicles and equipment, and increased use of mileage reimbursement, (2) completing a reservation system that allows employees to reserve items from a Citywide pool; and (3) revising City policies and procedures to include cost-effective utilization criteria that can be used to evaluate exemption, replacement and take home use requests. The revisions should also include criteria for assessing purchase requests for non-rolling stock items such as generators and trailers.

Reducing the fleet size, increasing usage of underutilized units, re-assigning underutilized vehicles, rotating vehicles, placing underutilized vehicles in a central motor pool, and increasing use of mileage reimbursement can result in better efficiencies.

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**Over 35% of the transport vehicles did not meet minimum utilization criteria**

Public Works Department Policy and Procedures 4-01 (Revised April 2005), titled "Vehicle and Equipment Use, Maintenance, and Replacement," details specific criteria for annual use of the City fleet units. The policy requires vehicles and equipment to be used a minimum number of miles, work days, or hours each fiscal year to justify their continued use. Vehicles or equipment must be operated a minimum of 2,500 miles or 50 hours or 75 per cent of annual workdays (220 base work days) in a fiscal year. The policy also requires departments to request and justify exemptions for low use vehicles and seek City Manager approval for the exemptions. The City's Fleet Focus database

<sup>2</sup> City Policy also requires usage of vehicles for 75% of work days; however, the City does not track this requirement.

## Attachment 1

tracks the mileage usage for those items with odometers and hourly usage for those items with meters.

In 1995, the City lowered the vehicle minimum utilization requirements from 5,000 miles per year to 2,500 miles per year.<sup>3</sup> Our analysis of the City's transport vehicles indicated many vehicles did not meet the reduced mileage minimum. We reviewed available utilization data for 120 transport vehicles<sup>4</sup> in the City's fleet during FY 2008 and FY 2009. The results showed over 38% (46 vehicles) were driven less than the minimum in FY 2009. In FY 2008, 36% (43 vehicles) were driven less than the minimum. The table below shows a breakdown of the underutilization by department, program, and location.

<sup>3</sup> The City's policies and procedures 4-01/PWD, dated December 1993, defined low use vehicles as those operated less than 5,000 miles per year. Vehicles with 2,500 miles or less were to be eliminated from the fleet or re-assigned. Vehicles operated less than 5,000 miles, but more than 2,500 miles needed to be re-justified annually and exceptions had to be approved by the City Manager. In 1995, the City issued revised minimum utilization requirements that removed the threshold and stated "vehicles or equipment must be operated either a minimum of 2,500 miles or 50 hours or 75 percent of annual work days (220 base work days) in a fiscal year." These minimum use requirements are still in effect under the current policies and procedures 4-01/PWD, dated April 2005.

<sup>4</sup> 120 transport vehicles consisted of Class 1 and Class 4 - sedans, vans, and light pick-ups.

Attachment 1

**Exhibit 3: Transport Vehicles Driven Less than 2,500 Miles in FY 2008 and FY 2009**

Department			Total Assigned		FY 2008			FY 2009		
Dept	Section	Location	Section	Dept	Avg Miles Driven	Driven <2,500 miles	% Driven <2,500 miles	Avg Miles Driven	Driven <2,500 miles	% Driven <2,500 miles
ASD	IT	City Hall	2	2	2,048	2	100%	3,053	1	50%
CSD	Arts & Culture	Lucie Stern	2		771	2	100%	3,316	1	50%
CSD	Recreation	Lucie Stern	2		4,059	0	0%	2,741	1	50%
CSD	Parks & Golf	Golf Course	2	6	3,106	0	0%	3,385	0	0%
FIR	Fire Operations	City Hall	6		4,338	3	50%	3,600	4	67%
FIR	Fire Support	City Hall	4	10	2,827	2	50%	3,161	2	50%
HRD	Risk Mgt	City Hall	1	1	1,068	1	100%	1,065	1	100%
PLA	Inspection Svc	City Hall	14	14	3,734	6	43%	3,645	5	36%
POL	Police	City Hall	1		2,262	1	100%	2,420	1	100%
POL	Animal Svc	MSC	1	2	2,784	0	0%	19,086	0	0%
PWD	Admin	City Hall	1		10,004	0	0%	10,004	0	0%
PWD	Engineering	City Hall	5		2,899	2	40%	4,237	1	20%
PWD	Facilities Mgt	MSC	6		4,978	1	17%	4,111	1	17%
PWD	Equip Mgt	MSC	8		1,259	5	63%	3,342	4	50%
PWD	Operations	MSC	9		4,823	0	0%	3,803	2	22%
PWD	Wastewater	Landfill	6		2,859	3	50%	2,275	3	50%
PWD	Refuse	Landfill	2	37	1,498	2	100%	1,753	2	100%
UTL	Admin	City Hall	11		5,898	0	0%	5,796	1	9%
UTL	Electric Ops	MSC	14		4,224	2	14%	4,305	2	14%
UTL	Electric Eng	Elwell Ct.	3		2,115	3	100%	2,172	2	67%
UTL	Water, Gas, Wastewater Eng	Elwell Ct.	8		2,165	4	50%	2,496	5	63%
UTL	Water, Gas, Wastewater Ops	MSC	9		3,968	2	22%	4,007	5	56%
UTL	Resource Mgt	City Hall	3	48	4,625	2	67%	4,235	2	67%
	<b>Total</b>			<b>120</b>	<b>3,677</b>	<b>43</b>	<b>36%</b>	<b>3,880</b>	<b>46</b>	<b>38%</b>

Source: City Auditor Analysis of Public Works Fleet Focus Database

**Abbreviations:**

ASD	Administrative Services Department	PLN	Planning and Community Environment
CSD	Community Services Department	POL	Police Department
FIR	Fire Department	PWD	Public Works Department
HRD	Human Resources Department	UTL	Utilities Department
MSC	Municipal Services Center		

## Attachment 1

As shown in Exhibit 3, several transport vehicles did not satisfy the minimum annual use requirements. For example:

- Of the 48 vehicles located at City Hall, 18 (38%) were driven less than 2,500 miles in FY 2009 and 19 (40%) were driven less than 2,500 miles in FY 2008.
- Of the 14 vehicles assigned to the Inspection Services section in the Planning and Community Environment Department, 5 (36%) were driven less than 2,500 miles in FY 2009 and 6 (43%) were underutilized in FY 2008.
- The vehicle assigned to the Human Resources Department was driven less than 1,070 miles in both fiscal years.
- 3 of the 6 vehicles assigned to PWD's Wastewater division did not satisfy the 2,500 mile annual minimum.
- 2 of the 3 vehicles assigned to the Utilities Department's Electric Engineering section were driven less than the minimum requirement in FY 2009 and all 3 were driven less than the minimum in FY 2008.
- 5 of the 8 vehicles in the Utilities Department's Water, Gas, and Wastewater Engineering section were driven less than the minimum requirement in FY 2009 and 4 were driven less than the minimum in FY 2008.

Our analysis of the 120 transport vehicles also indicated 75% (90 units) were driven less than 5,000 miles, the prior minimum utilization criteria.

Although the practice has typically been to assign vehicles to individual users or workgroups, the City also offers mileage reimbursement to employees using their personal vehicle for business purposes. Using mileage reimbursement for lower mileage uses can save fleet costs. For example:

- The PWD Engineering Inspection/Surveying section located at the Municipal Services Center has 3 vehicles for 4 employees. The Inspection/Surveying section also hires hourly employees. The hourly employees use their private vehicles to perform their work and submit mileage reimbursement claims. For the first six months of FY 2010, mileage reimbursements for the four hourly employees totaled \$1,408 for about 2,560 miles. Compared to the City's annual operating and maintenance cost of \$7,240 for a sedan, the mileage reimbursement saves about \$26,000 per year.

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### **25% of City trucks and equipment did not meet minimum utilization criteria**

The City's utilization standards of 50 hours or 2,500 miles per year apply to equipment and specialized trucks such as dump trucks, forklifts, tractors, aerifiers, and mowers. Equipment with odometers use the 2,500 mileage criteria and equipment with meters use the hourly criteria.

The fleet management database was missing utilization data for some of the equipment units. Based on the available information, we estimate that 25% of the City's trucks and equipment did not meet the minimum utilization criteria. The table below lists examples of the underutilized equipment and trucks by type.

**Exhibit 4: Examples of Underutilized Equipment Types for FY 2008**

Description	Quantity Assigned	Quantity Used Less than Minimum
Aerial Trucks	12	5
Air Compressors	8	5
Generator Trailers	30	24
Parking Scooters	5	2
Utility Tractors	22	2
Water Tankers	2	2
Dump Trucks	36	7
Heavy Trucks	25	10

Source: City Auditor Analysis of Public Works Fleet Focus Database

As shown in the table above, several types of equipment did not satisfy the minimum annual use requirements. For example:

- 5 of 12 aerial trucks were driven less than 2,500 miles.
- 5 of 8 compressors were used less than 50 hours.
- 7 of the 36 dump trucks were driven less than 2,500 miles.
- 10 of 25 heavy trucks were driven less than 2,500 miles.
- 24 of 30 generator trailers were used less than 50 hours.

A number of trucks and equipment were geographically collocated, such as units assigned to the Public Works, Utilities Department, and Community Services Parks Division located at the Municipal Services Center (MSC). While there may be unique uses for some equipment, this collocation creates an opportunity to increase utilization and reduce costs through sharing, pooling, and rotating use. For example:

- Public Works Operations and Utilities Water-Gas-Wastewater Operations had 5 backhoes located at MSC. These cost \$46,300 to \$66,400 a piece.
- The City fleet had 61 dump and heavy trucks that cost as much as \$250,000. Many of these trucks were co-located at MSC.
- Air compressors cost as much as \$33,400. 8 of the air compressors assigned to Public Works and Utilities were located at MSC and could be shared.

Heavy trucks and equipment can be some of the most costly pieces to replace and maintain in the City fleet and therefore it is important to maximize their utilization. For example, PWD fleet management's cost to replace an air sweeper in 2007 was over \$198,000 and it was driven only 1,280 miles. A 1996 Chevrolet 3500 truck that cost \$44,220 was listed for replacement for \$65,000 although it was driven only 1,949 miles in FY 2008. Based on age, the truck would have been eligible for replacement.

Despite the underutilized equipment, we found examples of some equipment with significantly higher use, indicating higher utilization is possible. For example, the Public Works Landfill purchased two large tractors at a cost of \$432,000 and \$491,000 that respectively averaged 1,475 to 1,800 hours per year.

## Attachment 1

While there may be unique operational features for some pieces of equipment, maximizing the use of pooling and sharing equipment across programs and departments could allow the City to reduce the size of the City fleet and save City resources.

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### **PWD Fleet Management Actions Based on Preliminary Findings**

We shared our preliminary audit findings with PWD fleet management, and staff proactively implemented our proposed audit recommendation to temporarily freeze non-urgent vehicle and equipment replacements. As a result, in 2009 the City did not budget for FY 2010 fleet replacements. This action saved approximately \$2.5 million in planned replacements, including \$948,000 for underutilized vehicles.

PWD fleet management also asked departments to voluntarily remove underutilized transport vehicles from the City's fleet. In August 2009, the Public Works Director distributed a list to City departments identifying 86 underutilized vehicles for possible removal or reassignment. PWD fleet management followed up with a form to request information on the programmatic use and data to determine if an exemption request was justified.

Three departments (Planning, Community Services, and the Library) responded by agreeing to turn in or share four underutilized vehicles. For example:

- CSD and Library staff located at Lucie Stern agreed to consolidate and share their vans.
- CSD developed an internal vehicle reservation process for other work units within their department to reserve vehicles.
- The Planning Department agreed to turn in two underutilized vehicles.

However, the majority of departments and programs wanted to keep their assigned underutilized vehicles. Of the 86 underutilized vehicles PWD identified, departments submitted 65 requests for exemptions. Our review of the exemption requests and discussions with the user departments identified the following main concerns:

- Departments want the use of a vehicle in case an employee is called back to work for emergencies.
- Departments are concerned if they relinquish an exclusively assigned vehicle, another vehicle may not be available when needed.
- Departments with off-site locations are concerned that pool vehicles would not be accessible.
- If assigned vehicles are removed, each department's mileage reimbursement costs would increase, and this is not currently in the approved budgets.
- Some employees may use alternative transportation to get to work and cannot use mileage reimbursement.

PWD fleet management has begun to evaluate the requests and plans to conduct a similar process with underutilized equipment. According to PWD fleet management, without explicit authority to administer the fleet, PWD fleet management's ability to



## Attachment 1

reassign, reduce, or pool underutilized vehicles and equipment will continue to be limited.

As PWD fleet management continues with this process, it will be important to have appropriate criteria to use in the evaluation process and to address user-department concerns.

In our opinion, fleet underutilization should be addressed before spending City resources on additional replacements and additions. Public Works fleet management should develop an action plan to increase fleet utilization and ensure the City has the optimal size fleet and use of fleet resources. The action plan should include a variety of available alternatives such as increased use of mileage reimbursement; rental of specialized, seasonal, or other needed equipment; sharing of equipment; placing underutilized vehicles and equipment into a central motor pool; and rotating vehicle assignments.

We should also note some government fleets are exploring regionalization of fleet purchases and shared use as the City considers options to partner with nearby entities for other services.

**RECOMMENDATION # 1:** PWD fleet management should continue to freeze replacement of non-urgent vehicles and equipment until it can reduce the size of the fleet and increase utilization.

**RECOMMENDATION # 2:** PWD fleet management should develop an action plan for increasing fleet utilization and identify an optimal fleet size and composition that includes eliminating or re-assigning underutilized vehicles, exploring opportunities to rent specialized equipment or seasonal use of equipment, not replacing vehicles, utilizing mileage reimbursement, rotating vehicles, and placing underutilized vehicles and equipment in a central motor pool.

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**Although PWD fleet management began to install a vehicle reservation system in Fiscal Year 2007 to create a Citywide motor pool, employees are not yet able to use the system, thereby limiting the usefulness and accessibility of a centralized pool**

Throughout the audit, PWD fleet management noted difficulty in encouraging departments to share vehicles or equipment, and a lack of authority to reassign or redistribute vehicles. Once assigned a vehicle or equipment unit, individual departments maintain control over the use.

The City's FY 2007 and FY 2008 Capital Improvement Program (CIP) budgets allocated \$80,000 to implement an automated vehicle pool reservation system to allow for an intranet-based reservation system for user departments. According to the most recent budget documents, the project is about 30% complete and implementation has taken longer than anticipated. In FY 2010, the CIP budget provided an additional \$25,000 to complete the project. In the absence of the automated vehicle reservation

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system, PWD fleet management maintains a small motorized pool of eight vehicles at MSC. However, use of the pool has been limited and 4 of these 8 vehicles did not meet minimum utilization requirements during FY 2008 and FY 2009. Public Works also reports they have a small pool of vehicles available at City Hall, with keys located at the Public Works Department. However, we found that employees in other departments were not aware of this pool. Implementing the system could improve fleet utilization and minimize the overall number of vehicles by encouraging the sharing of vehicles and equipment.

In the absence of an accessible Citywide pool, departments have formed decentralized vehicle pools throughout the City. For example, the fleet database notes small vehicle pools at Elwell Court, Foothills Park, the golf course, landfill, Lucie Stern Community Center, and the Water Quality Control Treatment Plant. Some departments have created additional informal pools. However, each motor pool is operated separately from the others, and there is no pool to allow sharing of equipment among user departments.

In our opinion, fleet utilization could be further improved by centralizing fleet operations through programs such as a Citywide pool and reservation system that allows employees to reserve and share vehicles and equipment throughout the City.

**RECOMMENDATION # 3:** The Public Works fleet management should complete implementation of a centralized Citywide vehicle and equipment pool, and make the Citywide pool accessible to all departments.

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**The City's Policies and Procedures should be revised to: identify cost-effective utilization criteria, establish a rigorous and routine process to justify utilization exemptions, clarify replacement criteria, and provide clearer policies for take-home vehicle use.**

While there can be critical service delivery considerations to justify underutilization of a particular vehicle or equipment unit, we found the lack of a process and authority to implement the established City procedures contributed significantly to the overall fleet underutilization. We also found that the City's policies and procedures could be improved to identify cost-effective utilization, replacement criteria, and to provide clearer guidance for take-home use.

***The utilization criteria should be re-evaluated for cost-effectiveness***

Cost-effective utilization criteria are important since they directly impact the size and cost of the City's fleet. In 1995, the City lowered the minimum vehicle use requirements from 5,000 miles per year to 2,500 miles per year. The City's policies also established a 50-hour minimum utilization for metered equipment, along with the 75% of annual work day use based on 220 work days in a fiscal year. PWD fleet management has not tracked departmental compliance with the annual work day use and we did not find this measurement utilized in other local jurisdictions we reviewed. Overall, we found the City's mileage minimums were considerably lower than other jurisdictions with established criteria and should be re-evaluated. For example, the City of Redwood City has a 5,000 annual mile minimum, similar to Palo Alto's previous requirement. The City of San Jose has a 10,000 mile annual minimum for sedans and

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10,000 mile annual minimum for pick-up trucks. San Jose's vehicle utilization requirements are significantly higher than Palo Alto, but their geographical area is also larger. Other nearby jurisdictions, such as Mountain View and Sunnyvale, do not have minimum use requirements. The State of California does not differentiate between transport passenger vehicles, light duty, or heavy duty vehicles and requires a minimum use of 12,000 miles per year. The Federal Government's Code of Federal Regulations requires 12,000 miles per year for passenger (transport) vehicles and 10,000 miles per year for light trucks and "general purpose" vehicles.

Ideally, a cost-benefit analysis should be performed to determine the break-even point for when it makes economic sense to offer employees mileage reimbursement for City business use, compared to the cost of permanently assigning a vehicle to an employee or department. The federal mileage reimbursement rate is designed to cover both direct and indirect costs of operating a vehicle (including cars, vans, pick-up trucks and panel trucks) and is revised annually. As of January 2010, the current federal rate was \$0.50 per mile. At this rate, the City's cost to reimburse employees for 2,500 miles of use is \$1,250 per year.

Although PWD fleet management's cost data was incomplete for reasons noted later in this report,<sup>5</sup> their information estimates the City's typical annual cost, including depreciation, is about \$7,420 for owning and operating a sedan and \$11,176 for owning and operating a pick-up. In our opinion, these costs should be used to evaluate the City's cost-benefit for owning transport vehicles versus other alternatives, and in establishing more cost-effective utilization criteria.

In addition, the City's policy does not explain the reason for the 50-hour annual minimum for metered equipment, which averages to about 14 minutes each work day (based on the City policy of 220 workdays each year). The 50-hour per year minimum also equates to over 97% of equipment downtime or equipment sitting idle, not in use.

Government standards for metered equipment are not as prevalent, but in comparison to those we identified, Palo Alto's standard appears to be significantly lower. A City of San Jose report found 240 hours of annual use for metered equipment was not "cost effective" and yet this use is 4 to 7 times higher than Palo Alto's minimum. Washoe County, Washington identified 200 hours per year as the threshold for underutilization. Unlike transport vehicles where a smaller geographic size could explain lower utilization standards, the use of metered equipment is not dependent on the size of the locality, but on the hours utilized in the field.

In our opinion, PWD fleet management should re-evaluate and increase the minimum utilization standards, in consideration of the above noted factors.

**RECOMMENDATION # 4:** The City Manager's Office and the Public Works fleet management staff should review the fleet's minimum utilization standards and consider increasing the standards to more cost-effective levels.

<sup>5</sup> See page 29.

***Exemptions should be routinely reviewed and justified using established criteria***

While cost-effective utilization standards are an important influence on the City's fleet size and cost, there should also be a mechanism to provide for utilization exemptions to allow for flexibility to deliver critical services and accommodate unique situations. Both the State and Federal governments allow users to request exemptions and some cities, such as the City of San Jose, also have exemption process. Exemption processes should have established criteria to confirm the critical need to provide an assigned vehicle or equipment and evaluate the feasibility and cost of available options. For example, the process should consider the number of similar units already in the fleet, the utilization of these units, ability to utilize pool vehicles, ability to utilize mileage reimbursement (if it is a transport vehicle), and the availability to rent seasonal or specialized equipment.

The City's current policy requires departments to request exemptions from PWD fleet management for any vehicle not meeting the minimum utilization requirements. The City's policy states,

"In September with the budget process, the fleet manager will notify those departments with vehicles not meeting the minimum requirements and require them to provide written justification for continued use. If 60 days pass without a response, then the vehicle will be considered surplus or reassigned. The fleet manager will review the requests for continued use and forward a recommendation to the Director of Public Works who will file the final recommendation and forward it to the City Manager. The City Manager or designee will make the final decision and approve any exceptions in writing. Vehicles or equipment must be operated either a minimum of 2,500 miles or 50 hours or 75 percent of annual work days (220 base work days) in a fiscal year... Those units given a permanent exception due to the nature of the work will not require justification unless the nature of the work changes."

However, in practice, PWD fleet management staff report that they have not been given authority to implement the procedure stated above, and there has been no mechanism to trigger a review of the exception list to ensure the vehicles should continue to be exempted. The policy does not mention an exemption process for vehicles and equipment that do not meet the minimum utilization requirement, so PWD fleet management has not implemented a process to review underutilized equipment. In addition, PWD fleet management does not have established criteria to identify, evaluate, or follow up on exception requests.

In 2004, PWD fleet management went through a one-time process to exempt underutilized vehicles, but as noted, lacked criteria to evaluate the requests and authority to "pull" underutilized vehicles. Since 2004, PWD fleet management has not conduct follow-up reviews to ensure the exemptions were still necessary. As a result, 18 of the 86 underutilized vehicles PWD fleet management is currently considering for potential reassignment or removal, had not been evaluated. Those that were previously evaluated, were permanently exempted for the life of the vehicle without any follow-up review. Essentially the 2004 waivers justified permanent exemptions. As a result, the underutilized vehicles were scheduled for replacement without additional scrutiny of their utilization or necessity.

Ensuring the PWD fleet management has authority to operate and manage the fleet, and introducing a Vehicle/Equipment Review Committee to scrutinize departmental

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requests for replacement and additions could improve the efficacy of the PWD fleet management operations. According to Government Fleet Magazine, a vehicle utilization review board is considered a best practice and is an effective method for reviewing the need for underutilized vehicles and exploring options for elimination, retention, or transfer to a centralized motor pool. The precedent for vehicle and equipment review committees already exists among government programs. For example:

- In response to a 2009 audit of its fleet, Santa Clara County established a 10-year fleet plan to standardize the fleet replacement process and system. County fleet management conducts an annual utilization study of the fleet, recommends specific vehicles for replacement based on 9 criteria, reviews proposed replacements with department heads, and submits the recommendations to the Board of Supervisors for approval.
- The City of San Jose formed a committee to review departmental requests for replacements, additions, and utilization exemptions. The process considers the results of a comprehensive mechanical assessment of vehicles considered for replacement, a review of mileage and use, years of service, repair costs, and information on other similar items in the fleet inventory.
- To help meet minimum utilization guidelines, some agencies at the federal level, such as the National Aeronautics and Space Administration, utilize vehicle utilization review boards to review utilization and reassignment of vehicles.

In our opinion, PWD fleet management needs to conduct routine utilization assessments to identify underutilized vehicles and equipment for retirement, redeployment, or inclusion into a centralized vehicle and equipment pool. PWD fleet management needs to implement an exemption process and develop appropriate criteria, standards, and forms to evaluate underutilization for both vehicles and equipment. The City Manager's Office should establish a committee with appropriate representatives to review the exemption requests and PWD fleet management information. PWD fleet management should also have the authority to manage and operate the City fleet to ensure optimized use of fleet resources.

**RECOMMENDATION # 5:** The City Manager's Office should establish a Vehicle/Equipment Review Committee with representatives from Public Works Department fleet management, Administrative Services Department's budget staff, and the City Manager's Office to review vehicle and equipment replacements and exemption requests to the utilization requirements.

**RECOMMENDATION # 6:** Public Works Department fleet management should develop written standards, forms, and assessment criteria for the Vehicle/Equipment Review Committee in their evaluations of fleet utilization such as: number of similar units in the fleet, average annual miles/hours of similar units, consideration and description of special uses, cost-benefit of retaining the item in terms of program efficiency and service delivery, and mechanical condition.

**RECOMMENDATION # 7:** Public Works Department fleet management should conduct routine annual utilization assessments to identify vehicles and equipment for retirement, redeployment, inclusion into a centralized vehicle and equipment pool. PWD fleet management should provide this information for the Vehicle/Equipment Review Committee to review the appropriateness of vehicle and equipment exemptions based on established criteria from Recommendation # 6 (above).

**RECOMMENDATION # 8:** Public Works Department fleet management should have the authority and responsibility to manage and operate the City fleet to ensure optimized use of fleet resources.

***The City's replacement criteria should be clarified***

The City's policy provides replacement guidelines based on age and the mileage or hours for each type of fleet unit. The policy also requires vehicles scheduled for replacement to be reviewed and analyzed for condition, cost, usage, safety history and operating performance. Mechanical assessments are a key component of fleet industry standards to assess the safety and costs for repairs and maintenance of each unit. However, our review found that PWD fleet management developed the replacement list based primarily on the age of the units and did not routinely incorporate utilization data or results from mechanical assessments.

In addition, the City's replacement guidelines listed in the policy contain ambiguity on the application of the replacement criteria (See Attachment 1). For example:

- Automobiles have a replacement criteria of "5 years/70,000 miles" for non-emergency Fire and Police staff cars, and "7 years/70,000 miles" for all others - the policy is not clear on whether both the age and mileage are required to trigger the replacement consideration, or whether age alone can trigger the replacement consideration. With a minimum utilization standard of 2,500 miles, unless a vehicle is utilized more than the standards, it would take 28 years to reach 70,000 miles for replacement.
- The replacement criteria for forklifts is 10-15 years, without consideration for the overall hours on the unit.
- The replacement criteria for street sweepers is 6 years/60,000 miles for 3 wheels and 7 years/60,000 miles for 4 wheels, but we found the City's broom sweeper meters measured usage in hours.

With the current ambiguity in the policy's replacement criteria, coupled with the findings of underutilization and lack of incorporating mechanical assessments, we found that the age of a vehicle was more likely the factor for replacement consideration. Here are some examples we found:

- The database included a directional boring unit assigned to the Utilities Department that was replaced just under the five-year replacement cycle, after only 402 total hours of service. With a purchase price of \$71,287, the

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depreciation alone cost the City \$177 for each hour of use, not including operational and maintenance costs. According to PWD fleet management, the new unit was replaced early because the Utilities staff reported the machine was too small for their operations.

- The Public Works Department replaced a large utility truck after only 61,300 miles of use. The vehicle was 11 years old. The new vehicle cost over \$124,000. PWD fleet management reported the truck was in poor condition and replaced because it was inadequate for PWD needs.

According to PWD fleet management, they are beginning to incorporate mechanical assessments into the replacement process. During the last two years, PWD fleet management has also prolonged several vehicle replacements past the age criteria. The concern is that without addressing the underutilization, replacing vehicles based on age could result in an oversized, aged fleet.

**RECOMMENDATION # 9:** Public Works Department fleet management should improve the replacement evaluation process through the following: revise the written policies to clarify replacement criteria, reinstate mechanical evaluations as part of the evaluation criteria for replacing vehicles (e.g. vehicles requiring cost-prohibitive repairs vs. those in good mechanical condition); and incorporate utilization requirements as part of the evaluation criteria to help ensure underutilized vehicles are not replaced.

### ***The City reduced the number of approved take-home vehicles, but clearer policies are necessary to identify the appropriate use and authorization for take-home use***

In 2007, the City Manager's Office reduced the list of positions authorized for take-home vehicles from 22 to 7. We estimate this reduction saved about \$3,000 in annual costs per vehicle. As of June 2009, PWD fleet management had a list of 7 positions authorized for exclusive and emergency use. However, the City's policy listing the authorized positions does not reflect these changes and has not been updated since 2005.

The policy also contains confusing definitions that can create ambiguity around the appropriate use and authorization for take-home vehicles. For example, the policy states that the Equipment Management Division of Public Works shall keep a record of vehicles driven home under four permissible categories - Exclusive<sup>6</sup>, Emergency Response, Permanent Standby and Occasional Overnight uses. However, a careful read of the procedures allow for a variety of take-home uses. For example, as part of the Emergency Response Use, the procedures allow for requests of "ongoing use" and "occasional use". The procedures also mention a Standby Vehicle category, which appears to be the same as the Permanent Standby, but different than the category for emergency response. It does not detail whether the employees can take home vehicles each workday, or if there is a standby assignment schedule and the take-home use is limited to this schedule. The procedures also allow for pool cars and

<sup>6</sup> City policy defines exclusive use as the assignment of a City Vehicle to a department head or a Council Appointed Officer. Positions authorized for Exclusive Use include the PWD Director and Police Chief. The policies and procedures do not provide for monthly stipends, however, the Management Compensation Plan allows monthly stipends up to a maximum of \$325 for employees whose duties require use of an automobile.

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assigned cars (those assigned to a specific City department or employee) to be taken home under a separate category of “occasional overnight use.” In effect, any vehicle could potentially be authorized for take home use.

The procedures also contain various requirements to substantiate take-home use. Documentation requirements varied from requiring employees to maintain monthly logs to document the purpose or incident (under Emergency Response Use), to no requirement of usage logs (under Standby Use and Exclusive Use). Occasional Use under Emergency Response required email notification to PWD fleet management, whereas Occasional Overnight Use under a different section required written approval and notification.

PWD fleet management produced usage logs for Emergency Response vehicles dating back to 2007, however current usage logs and notifications were not available. As a result, we could not determine whether or not departments are, or are not, following the policy. In our opinion, PWD fleet management should update and clarify the take-home policy and conduct routine follow-ups with departments to document their adherence to the policy.

**RECOMMENDATION # 10:** Public Works Department fleet management should revise the policy and procedures to clarify the take-home policy and conduct routine follow-ups with departments to document adherence to the policy.

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### Replaced vehicles were allowed to remain and augment the City's fleet

According to the City's policy, surplus vehicles (vehicles that were on the replacement list and slated for disposal) may be reassigned to replace vehicles in other departments, as determined by the Fleet Manager and approved by the Director of Public Works. However, vehicle additions are requests to augment the City fleet and are approved through a separate capital improvement budget process. We found that PWD fleet management allowed departments to retain replaced vehicles as surplus vehicles to fill temporary needs, without going through a separate vehicle addition budget process. This practice essentially allowed the fleet size to grow.

As of June 30, 2009, the fleet surplus inventory included 13 surplus items – 8 autos, 2 pick-up trucks, 1 motorcycle, 1 heavy duty truck, and 1 ambulance. By retaining the 13 surplus items, fleet operating and maintenance costs increased to cover fuel and maintenance for both the old, as well as the new vehicles. For example, a surplus sedan assigned to the Planning Department's Inspection Services section was driven only 1,560 miles in FY 2009. According to PWD fleet management, the annual operating cost for this vehicle was about \$4,450. In comparison, instead of keeping the surplus vehicle, mileage reimbursement at 55 cents per mile would have cost the City only \$858. Likewise, in FY 2008, another surplus sedan assigned to Inspection Services was driven only 1,373 miles. The annual cost of operating this vehicle was about \$4,450, as estimated by PWD fleet management. Mileage reimbursement costs would have been only \$755.

In our opinion, PWD fleet management should have an established process to approve and evaluate requests to add to the vehicle fleet. These requests should identify the



budget impact of the purchase and on-going replacement and maintenance costs. The request should also evaluate the need for the addition, the viability of other alternatives such as mileage reimbursement or equipment rental, shared use of a similar unit already within the City fleet, and utilization of other similar units within the City fleet.

**RECOMMENDATION # 11:** Public Works Department fleet management should establish a process to approve and evaluate requests to add to the City fleet. These requests should identify the budget impact of the addition and funding for on-going maintenance and replacement costs, the need for the addition including utilization of similar units, and the feasibility of other alternatives such as mileage reimbursement, rental, pooling, or sharing of similar units.

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**Vehicle rotation can reduce replacement costs of public safety vehicles by balancing higher and lower usage**

Our analysis indicates greater efficiencies could be achieved by rotating the use of some emergency response vehicles. The City has replacement guidelines for emergency response vehicles but it does not have specific utilization requirements or rotational use requirements. As a result, we found a variety of uses ranging from high-use to low-use in some types of emergency response vehicles. For example, the Police Department had 25 marked sedans, with annual utilization ranging from 1,126 miles to 36,373 miles in FY 2008. According to the City's policy and procedures, patrol sedans are eligible for replacement at 85,000 miles. The patrol sedan with 36,373 annual miles would reach the mileage threshold within 3 years, but with vehicle rotation the replacement could be extended. Motorcycle use also varied from 883 miles to 10,135 miles in FY 2008. The mileage for fire engines ranged from 497 miles to 9,050 miles in FY 2008. By rotating the use of these vehicles, the City could even out the utilization and reduce replacement costs.

The Police and Fire departments have agreed that vehicle rotation is possible and could reduce replacement costs of emergency response vehicles.

**RECOMMENDATION # 12:** Public Works Department fleet management should maximize use of Police Department patrol sedans and motorcycles, and Fire Department fire engines, by rotating vehicle assignments among lower and higher use areas.

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**PWD fleet management does not have established criteria to assess the efficiency and necessity of non-rolling stock equipment purchases such as generators and trailers**

The absence of established criteria to assess the efficiency and necessity of non-rolling stock equipment purchases hinders PWD fleet management's ability to effectively scrutinize requests for equipment. In addition, trailers, generators and other non-rolling stock equipment could be shared among departments with facilities at the same location such as Utilities, Public Works, and CSD locations at the MSC. More specifically:

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- The City's fleet inventory contains 169 non-rolling stock items assigned to specific user departments. Most of these items are generators or trailers and do not have a mechanism to monitor their use.
- 102 of the trailers are located at MSC and assigned to Public Works, Utilities, and CSD.
- Several items on the City's budgeted replacement list consisted of non-rolling stock equipment. In FY 2009, 15 out of the 44 planned replacement items consisted of trailers and miscellaneous non-rolling stock equipment. In FY 2008, the list included 12 trailers and 6 pieces of miscellaneous non-rolling stock equipment out of 102 trailers.
- Certain types of equipment, such as trailers, are not metered, so replacement decisions are primarily based on the age of the unit.
- The City's replacement guidelines for trailers and miscellaneous equipment are broad, ranging from 5 to 15 years.

Without additional criteria to assess the need to replace miscellaneous equipment, it was difficult to determine the necessity of the replacements. In our opinion, PWD fleet management should develop criteria for assessing the need for non-rolling stock equipment.

**RECOMMENDATION # 13:** Public Works Department fleet management should develop written criteria for assessing the need of non-rolling stock equipment.

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### **Outdated and incomplete data makes it difficult to effectively manage the fleet**

To properly manage the City fleet, departments and PWD fleet management need accurate, complete, and timely data on the fleet inventory. Our analysis indicates the Fleet Focus database was not consistently updated or complete. As a result, PWD fleet management could not properly monitor or manage fleet resources, including identifying replacements, reassigning underutilized equipment, or enforcing City fleet policies. Following are examples we found:

- The fleet database did not contain updated assignments. For example, during our physical sampling:
  - We could not locate 2 street sweepers assigned to MSC Maintenance Operations because the department had transferred the sweepers elsewhere.
  - Planning and Community Environment Department personnel reported that 3 vehicles shown in the fleet database as assigned to the department were no longer assigned to them.
  - The database listed a pick-up truck as assigned to CSD, but a review of the notes indicated PWD had re-assigned this vehicle to the Utilities Department to replace a truck involved in an accident.

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- Some of the fleet database utilization data was incomplete, and therefore, it was difficult to determine whether utilization minimums were met for individual units. For example:
  - The fleet inventory contains 6 turf gators, similar to riding lawn mowers, for the Community Services Department's Parks and Recreation section. However, the database does not track the number of hours these are utilized. According to PWD fleet management, these smaller items do not have meters, are fueled from gas cans, and do not generate usage data.
  - Several pieces of park equipment were not included in the inventory. According to PWD fleet management, the Community Services Department is responsible for repairing and maintaining these items.

We attempted to determine if items listed in the FY 2009 fleet inventory satisfied minimum use requirements and were unable to accurately verify the results due to missing data. According to PWD fleet management, there were reasons why utilization data was not available. For example:

- The City's two boats did not have meters to track their use.
- A wood chipper listed in the inventory was removed from service in FY 2007. It was still listed on the inventory because the disposition was not complete as of April 2009.
- Two of the units classified in the database as fire engines were actually fire aeriels.
- Of the six forklifts in the fleet inventory, three were electric and one was propane fueled. Because of this, utilization data for these units was not available through fuel transactions. Meter readings were available only when these items were serviced or work order data reviewed, which is generally twice or more each year.
- A pumper truck in the fleet inventory was removed from service in FY 2005 due to practical obsolescence and is still awaiting disposal.

According to PWD fleet management, staffing vacancies have hindered their ability to follow up with departments to ensure the accuracy and timeliness of the database information. In our opinion, PWD fleet management should review the database inventory for completeness, and accuracy and produce routine reports on vehicle and equipment assignments for assessing utilization and allocation of City fleet resources.

**RECOMMENDATION # 14:** Public Works fleet management should routinely review the database inventory for completeness and accuracy and develop necessary processes for departments to provide accurate and timely utilization data.

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**Finding 2: Funding stability and improved processes are needed to adequately fund fleet replacement and maintenance**

The City's vehicle and equipment program is typically funded through the Vehicle Replacement Fund (hereafter referred to as Vehicle Fund) within the City's Capital Improvement Project (CIP) budget. Sources of funding are distributed among the General Fund and Enterprise Funds. The City's budget process allocates fleet expenses (including replacement, operation, and maintenance costs) across user departments (called "allocated charges"), based on information from the PWD fleet management. However, Vehicle Fund expenditures exceeded revenues during FY 2006, 2007, and 2008.

Our analysis indicates three main reasons contributed to this funding deficit: (1) the charges to user departments did not sufficiently cover the City's full cost for operating the fleet; (2) the current budget process could be improved to provide incentives to reduce fleet costs; and (3) the fleet addition approval process did not consistently identify or budget for the amount of on-going maintenance and replacement costs.

The size of the City fleet directly impacts the cost of on-going repair, maintenance, and replacement budget in the Vehicle Fund. In our opinion, as PWD fleet management reviews the appropriate fleet size through implementation of the audit recommendations, it will also be imperative for PWD fleet management and ASD budget staff to identify stable and on-going funding to maintain the fleet in an appropriate condition. As PWD fleet management implements additional alternatives for providing business-related transportation, the way the City budgets and allocates fleet costs across departments will need to be updated to accommodate alternatives such as the use of a Citywide vehicle and equipment pool and mileage reimbursements.

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**Charges to user departments did not sufficiently cover the City's full fleet costs**

The City uses internal service funds to finance and account for special activities and services performed for other departments on a cost reimbursement basis. The Vehicle Fund accounts for maintenance and replacement of vehicles and equipment used by all City departments. As an internal service fund, it should be self-sustaining and the charges to the individual departments should be adequate to cover all costs related to the program. The charges should also provide sufficient funds to replace vehicles and equipment.

Although the Vehicle Fund is supposed to be self-supporting, transfers to the Vehicle Fund's reserves declined from positive \$469,945 in FY 2005 to negative \$140,072 in FY 2008, as shown in Exhibit 6.

**Exhibit 5: Summary of Vehicle Fund Revenues and Expenditures FY 2005 to FY 2010**

<b>Fiscal Year</b>	<b>FY 2005 (Actual)</b>	<b>FY 2006 (Actual)</b>	<b>FY 2007 (Actual)</b>	<b>FY 2008 (Actual)</b>	<b>FY 2009 (Adjusted Budget)</b>	<b>FY 2010 (Budget)</b>
Operating Revenue	\$5,328,372	\$5,570,551	\$5,672,726	\$6,363,955	\$9,136,007	\$7,019,248
Interest Income	\$182,194	\$105,293	\$266,285	\$338,053	\$192,700	\$207,600
Other Income	\$121,619	\$90,107	\$501,773	\$81,608	\$621,009	\$266,009
<b>Total Fund Revenues</b>	<b>\$5,632,185</b>	<b>\$5,765,951</b>	<b>\$6,440,784</b>	<b>\$6,783,616</b>	<b>\$9,949,716</b>	<b>\$7,492,857</b>
Administration	\$125,767	\$491,261	\$2,214,106	\$2,069,613	\$143,015	\$145,974
Vehicle Replacement and Additions	\$2,045,808	\$2,875,971	\$1,444,588	\$1,065,357	\$3,124,401	\$895,237 <sup>7</sup>
Vehicle Operations and Maintenance	\$2,990,665	\$3,188,654	\$3,315,224	\$3,788,718	\$4,861,458	\$4,471,094
<b>Total Expenditures</b>	<b>\$5,162,240</b>	<b>\$6,555,886</b>	<b>\$6,973,918</b>	<b>\$6,923,688</b>	<b>\$8,128,874</b>	<b>\$5,512,305</b>
To/(From) Reserves	\$469,945	(\$789,935)	(\$533,134)	(\$140,072)	\$1,820,842	\$1,980,552

Source: City Operating and Capital Budgets, Fiscal Years 2005- 2011

***Earlier decisions reduced allocated charges***

According to PWD, earlier decisions to reduce the Vehicle Fund's budget partially contributed to the funding deficit. For example, in FY 2002 the City faced an \$8.2 million revenue shortfall and reduced the vehicle replacement charges by \$800,000. The reductions continued in FY 2003 with approximately \$700,000 in reductions of allocated charges to user departments. In FY 2004 and FY 2005, the allocated charges increased, but the increases were not sufficient to restore the original reductions.

Deficits within the Vehicle Fund were offset by withdrawals from the Vehicle Fund's Unrestricted Assets reserves. The excess expenditures resulted in reserve withdrawals of \$789,935 in FY 2006, \$533,134 in FY 2007, and \$140,072 in FY 2008. The operating shortfalls and withdrawals resulted in declining and negative balances in the Vehicle Fund reserves and diminished the viability of the fund. According to ASD Budget staff, Vehicle Fund's reserve balance was negative \$374,000 as of June 30, 2007 and negative \$1,015,000 as of June 30, 2008.

As an alternative to purchasing replacements, PWD fleet management deferred the purchase of some vehicles and equipment scheduled for replacement and did not add to the fleet as planned and approved in the City's CIP budget. In FY 2009, to restore the Vehicle Fund's balance, the ASD Budget Division imposed a 20% surcharge on all fleet items and user departments. According to ASD Budget staff, the Vehicle Fund balance increased from negative \$1 million, to negative \$103,000 by June 30, 2009.

<sup>7</sup> Amount includes FY2010 capital improvements expenses for diesel truck emissions retrofits and continued replacement of the City-wide fuel management system. The amount does not include replacements for vehicles or equipment.

***Allocation formulas did not cover the full fleet cost***

In addition to the earlier funding reductions, we also found that the formula for allocating charges across user departments did not recover the full costs. Each year, PWD fleet management reviews the fuel, repair, depreciation, replacement, and other costs, related to each vehicle and piece of equipment in the City fleet. PWD fleet management aggregates this data and submits a spreadsheet to the ASD Budget Division. The ASD Budget Division uses this data to allocate fleet charges, based on the vehicles and equipment assigned to each department. However, our analysis indicates the allocation formulas did not cover the total cost to repair, operate, maintain, and replace the fleet vehicles and equipment. For example:

- The hourly rate (\$90) used to allocate labor did not cover all of the costs.
- The Operation and Maintenance charges covered only direct costs related to parts, labor, repairs, fuel surcharges, and similar costs. The charges did not include overhead or other administrative costs related to supporting the City fleet.
- The estimated replacement costs underestimated the actual replacement costs.

According to staff, some of these discrepancies occur due to differences between disaggregated information in the Fleet Focus database and aggregated costs reflected within the City's SAP financial system. In our opinion, these differences should be reconciled to ensure complete and accurate cost allocation charges in future years. Although ASD Budget implemented a surcharge in FY 2009 to help address the fund's deficit, this was a temporary fix. PWD fleet management and ASD Budget staff agreed that they need a better methodology to identify the complete cost of operating the City fleet and allocate the entire cost to the user departments.

***The City's CIP budget plans capital expenses over five years, but only two years for the CIP Vehicle Replacement Fund***

The City's annual capital budget is supposed to include a proposed CIP plan to cover a total of five years. Although fleet replacements and additions are part of the CIP budget plan, staff does not project funding beyond two years. In our opinion, the lack of a funding projection and estimate for upcoming fleet purchases, combined with the underestimates of replacement costs and allocated charges, has been a contributing factor in funding shortfalls for some large equipment replacements.

For example, in October 2008, staff sought Council approval to replace six of eight fire engines at a cost of \$3.2 million. According to the staff report, the Vehicle Fund had \$2.4 million allocated for the purchase of the engines and the remaining \$0.8 million would be funded through the City's agreement with Stanford. Although the CIP vehicle replacement budget included \$2.5 million, according to the CIP budget this amount was intended to replace 44 vehicles and equipment units, including \$1.2 million for three fire engines. Because of the insufficient funding, the entire amount of \$2.5 million was used to purchase the new fire engines and the other items on the replacement list were deferred.

**RECOMMENDATION # 15:** PWD fleet management and ASD Budget should revise the methodology for charging user departments to include the total cost of operating the City fleet and project CIP budget needs over the five-year CIP cycle.

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**The current budget process could be improved to provide incentives to reduce fleet costs**

The budget process can serve as an important function to provide feasible and cost-effective fleet alternatives. The City's current budget practice allocates the cost of assigned vehicles and equipment to user departments through "allocated charges." These fleet charges are combined with other allocated costs and shown together in the City's budget documents. The allocated charges are shown below each department's budgeted line items and are not directly controlled by the department. Unlike allocated charges for vehicles and equipment, the budget process includes mileage reimbursement costs in each department's budget through the "travel and meeting" category. As a result, departments must have an approved budget to utilize mileage reimbursement, whereas the allocated vehicle and equipment charges do not need to be budgeted within the department's budget, as long as PWD fleet management made the initial assignment. We found that this budget process creates a disincentive for departments to reduce the number of vehicles and equipment assigned to their respective departments. It also creates a disincentive for departments to utilize mileage reimbursement, even if it is more economical to the City than having an assigned vehicle.

In our opinion, ASD Budget Division and PWD fleet management should consider revisions to the budget process that show vehicle and equipment costs within each department's line item budget. This would provide more flexibility to departments and encourage economical decisions.

**RECOMMENDATION # 16:** ASD Budget Division and PWD fleet management should revise the budget process to show fleet costs within each department's line item budget.

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**The fleet addition approval process did not consistently identify or budget for the amount of on-going maintenance and replacement costs**

Each vehicle addition or new piece of equipment adds to the City's on-going cost to replace, maintain and operate the unit. Because of these cost implications, the approval process for fleet additions needs to identify an appropriate amount of on-going funding needed to operate, maintain, and replace each addition to the City fleet. Our review found that the fleet addition approval process did not consistently identify or budget for on-going maintenance and replacement costs. According to the City's Policy and Procedures 4-01/PWD, "Requests for additions of vehicles and equipment are submitted by departments as a Capital Improvement Program request." The procedures do not include criteria for determining whether the vehicle or equipment addition is necessary, or require the identification of funding for on-going costs associated with the addition.



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We also reviewed recent fleet additions and found that staff reports did not clearly identify the total amount of on-going funding resources that would be necessary. For example:

- In September 2009, staff sought Council approval to purchase a Regional Response Mobile Command Vehicle at a cost not to exceed \$700,000. The staff report identified grant funding for \$300,000 of this cost. According to the staff report, the Police and Public Works Departments' current operating budgets included on-going regular vehicle maintenance costs. However, the report did not identify the amount of on-going maintenance and did not identify funding for the replacement cost. If the replacement cost of this expensive unit is not funded, then the Vehicle Fund may not be able to absorb the unit's replacement cost in the future.
- In November 2009, staff sought Council approval to purchase an all terrain directional boring unit at a cost not to exceed \$285,945. The staff report did not include funding for on-going maintenance or replacement of the unit.

The lack of a budget for on-going maintenance, operation, and replacements for fleet items can contribute to budget shortfalls in the Vehicle Fund. In our opinion, the cost for on-going maintenance, operation, and replacement should be identified and budgeted for each fleet purchase.

**RECOMMENDATION # 17:** Requests for fleet purchases should identify and budget an amount for on-going maintenance, operation, and replacement costs.

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### **Developing a strategy for future replacement decisions could also help promote the City's Climate Protection Plan goal of replacing gasoline vehicles with Compressed Natural Gas (CNG), hybrid, or fuel efficient alternatives to the greatest extent feasible**

PWD fleet management has not purchased vehicle replacements in FY 2010 due to the recent freeze on non-urgent replacements discussed in Finding 1 of this audit report. However, the funding and type of vehicle selection for future replacements can promote the City's Climate Protection goals. In 2007, the City Council approved the Climate Protection Plan (CPP), which inventoried the City's municipal and community emissions and set emission reduction goals. In 2009, the City Council approved departmental action plans to help achieve these goals. Public Works' plan included a long-term goal of *"replacing City gasoline vehicles with CNG, hybrid, or fuel efficient alternatives to the greatest extent feasible."*

Public Works has already taken steps to retrofit diesel engine trucks, purchase CNG automobiles for some of the City's fleet replacements, and install CNG stations. PWD fleet management has primarily selected CNG vehicles to help achieve emission reductions. According to PWD fleet management, although hybrid vehicles contribute fewer emissions, CNG vehicles are more economical to purchase and still achieve emission reductions. In FY 2009, the City fleet had 87 CNG vehicles and 3 hybrid vehicles.

There are new opportunities to create a strategy for vehicle replacements that will promote, and even help exceed, the City's CPP goals. Recent developments include

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grant funding to expand battery charging stations at the City Hall; options to lower the cost of fuel efficient vehicles by pooling vehicle purchases with other organizations; green purchasing programs; and financial incentives at the federal and state level. For example, the City Auditor's Office revenue monitoring program found that the City was eligible for additional revenues from the federal government's alternative fuel tax incentives. As a result, the City received over \$123,000 in additional revenues. Future revenue recoveries or other financial incentives could potentially help offset the cost of purchasing fuel-efficient vehicles for the City fleet. The City Manager's Office recently took a lead in coordinating the development of the City's sustainability initiatives through the creation of an Assistant to the City Manager (Sustainability) position.

In our opinion, it is important for PWD fleet management to coordinate with the City Manager's Office to help ensure the selection of fleet replacements aligns with the City's other strategies and developments to promote the CPP goals. For example, PWD fleet management's efforts to install CNG fueling stations create an infrastructure to support CNG vehicles. Likewise, the City's recent grant funding for expansion of battery charging stations will also help create an infrastructure to support electric and hybrid vehicles.

**RECOMMENDATION # 18:** PWD fleet management and the City Manager's Office should develop a strategy to align future fleet replacements with the City's other strategies that promote CPP goals.

**Finding 3: Internal controls over fuel and parts inventory can be improved.**

According to Government Fleet Magazine, after the cost of depreciation, fuel is the second largest expense for public sector fleets. During fiscal years 2008 and 2009, the City fleet's annual fuel costs exceeded \$900,000 for unleaded, diesel, bio-diesel, and compressed natural gas (CNG). Auto parts inventory purchases were close to \$800,000 in fiscal year 2009. Our review found that internal controls should be improved for the City to reconcile and properly account for fuel purchases and inventory costs. At the time of our review, fuel purchases did not match consumption reports and the parts inventory was not updated or reconciled. Specifically:

- Fuel invoices did not match the CNG consumption reports and reports for unleaded and diesel fuels showed discrepancies;
- Our sampling found weaknesses in the internal controls for fuel pumping transactions;
- Vehicles and equipment were not consistently secured or locked; and
- A physical parts inventory had not been conducted for at least six years and the valuation of the inventory was not available.

The internal control weaknesses, if left unaddressed, could leave the fleet's fuel, equipment, and parts inventory susceptible to waste or abuse. The Public Works Department's (PWD) fleet management is aware of these issues and initiated steps to implement a new fuel transaction management system, called FuelFocus, to mitigate these risks. In our opinion, PWD fleet management should also work with the Utilities Department to reconcile CNG fuel purchases. PWD fleet management should also improve internal controls over the parts inventory.

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**Fuel invoices did not match the CNG consumption reports and reports for unleaded and diesel fuels showed discrepancies**

Internal controls should require City staff to reconcile fuel purchases, inventories, and balances to ensure overcharges and losses do not occur. If an overcharge occurs, the City should be able to detect and receive credits for the overcharge. If a loss or shortage occurs, the City should be able to detect and quantify the loss. During fiscal years 2008 and 2009, annual fuel costs exceeded \$900,000 for unleaded, diesel, bio-diesel, and compressed natural gas (CNG).

During our review, we attempted and could not reconcile the fuel inventories and deliveries. Discrepancies, incomplete data, and un-reconciled fuel balances prevented us from determining if the fuel amounts consumed and on hand were accurate or appropriate. We could not determine if fuel shortages existed or if losses occurred because the fuel balances and purchases were not reconcilable. PWD fleet management was also unable to reconcile the fuel balances, purchases, and consumption.

***CNG fuel billings***

The Utilities Department is responsible for purchasing compressed natural gas (CNG) and processing payments for these purchases. The Utilities Department receives the CNG invoices and charges the Vehicle Fund (the fund that processes fleet related costs) for the City fleet's CNG consumption. The ASD processes the payments from the Vehicle Fund; however, fleet management does not review or approve the payments. The fleet management database tracks the consumption of CNG within the City fleet and should be reviewed to verify the accuracy of the charges. Because PWD fleet management approval is not required for CNG fleet charges and payments, PWD fleet management was unaware of how much was charged to the Vehicle Fund for CNG fuel. Our review found the CNG fuel charges from the Utilities Department did not match the fuel consumption reports from PWD fleet management. For example:

- During FY 2008, the Utilities Department reported that it charged the Vehicle Fund for 137,806.8 gallon equivalents (114,839 therms) amounting to \$130,917 for CNG fuel costs. The fleet management database indicated that only 85,803 gallons amounting to \$66,887 were consumed during the same time. The consumption report substantiated only 62% of the volume charged.
- In FY 2007, the Utilities Department reports that it charged the vehicle fund for 111,910.8 gallons (93,259 therms) amounting to \$128,697 for CNG fuel costs. The fleet management database showed that only 71,006 gallons or \$81,657 were consumed during this timeframe. The consumption report substantiated only 63% of the volume charged.

Because PWD fleet management is not able to review the CNG fuel charges prior to their payment, these differences were not reconciled.

***Unleaded and diesel fuel purchases***

Basic internal controls, such as periodic reconciliations of fuel deliveries, payments, and inventory balances should be performed to help ensure accountability and use of the fuel resources. Reconciliations help ensure fuel purchases are not excessive to the operating needs and fuel purchases are matched to actual fuel on hand. Our analysis of the fuel reserves and purchases indicated discrepancies. PWD fleet management reported the following discrepancies.

**Exhibit 6: Unleaded and Diesel Fuel Balances**

	Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
	Unleaded (Gallons)	Diesel (Gallons)	Unleaded (Gallons)	Diesel (Gallons)	Unleaded (Gallons)	Diesel (Gallons)
Beginning Inventory	7,231	19,575	8,635	24,599	8,409	21,675
Fuel Purchased	151,906	142,692	157,878	137,607	155,305	152,386
Fuel Dispensed	156,012	140,329	151,300	124,254	133,555	127,241
Ending Inventory (Calculated)	3,125	21,398	15,213	37,952	30,159	46,819
Fuel Balance Reported	8,635	24,599	8,409	21,675	18,974	34,282
<b>Fuel Discrepancy</b>	(5,510)	(2,661)	6,804	16,277	11,185	12,537
<b>Approximate Value of Discrepancy</b>	(\$17,852)	(\$7,477)	\$28,780	\$62,503	\$26,508	\$28,333

Source: PWD Fleet Management

PWD fleet management could not reconcile the fuel purchases, balances, and payments. As a result, we could not determine if the ending fuel balances were correct, if the City was overcharged for fuel delivered, or if fuel losses had occurred.

According to PWD fleet management, it has recognized the inaccuracy of the existing Citywide fuel management system since 2006. The system has become unreliable and does not consistently report all transactions (especially from Fire Station One and the Landfill). It also does not interface with the existing tank inventory monitoring system. This makes periodic inventory reconciliation difficult, and has resulted in year-end discrepancies. Manual daily reconciliation is possible, but impractical due to the staff time required and prior staffing vacancies. In order to improve oversight over fueling operations, and facilitate fully automated inventory reconciliation, PWD fleet management initiated a CIP project (VR-06801) to replace the existing system in the FY 2007 Capital Budget. Contract #C09127499 was awarded to AssetWorks on June 1, 2009 and is anticipated to be completed by December 31, 2010.

We recommend that PWD fleet management staff work with the ASD Department and Utilities Department (for CNG) to develop a system that reconciles fuel consumption, purchases and balances.

**RECOMMENDATION # 19:** PWD fleet management should develop a system to reconcile fuel purchases, balances, and consumption reports.

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**Our sampling found weaknesses in the internal controls for fuel pump transactions**

The City's policies and procedures require all City vehicles and equipment to be fueled at one of the City's seven fueling facilities. City fueling stations are located at four fire stations, the golf course, the landfill, and the City's Municipal Services Center (MSC).

The fuel types dispensed in Fiscal Year 2008 included unleaded, diesel, bio-diesel, and CNG. Existing controls at the fueling stations and pumps require employees to enter the vehicle or equipment unit number, the mileage of the vehicle or equipment, and the employee number before fueling. If the data is valid, the centralized computer allows the fuel to be dispensed.

Our test of the controls at the fueling stations indicated the controls worked as designed and fueling transactions were recorded in the fleet's fuel management system. However, we also found transactions showing fuel had been dispensed to vehicles that were not yet in the fleet, vehicles that were no longer in the fleet, and unusual fueling patterns. For example:

- Gas was pumped for 3 months after the date a Caterpillar loader was disposed.
- A 2004 Ford F-250 showed activity 5 months before it was placed in service.
- A Ford F-250 showed unusual gas pumping activity from pumping every two weeks to pumping every 2-3 days.

These unusual transactions were not identified or investigated further to identify the causes. According to PWD fleet management, these types of discrepancies can occur when an old vehicle has not been deleted from the fuel management system; when a new vehicle is prematurely entered into the database; or when an employee enters incorrect vehicle numbers.

According to PWD fleet management, other vulnerabilities existed. For example,

- One departmental fuel code can cover numerous fuel cans and pieces of small equipment. This internal control weakness makes the fueling system susceptible for employees to dispense fuel into gas containers for personal use and to charge their department for the fuel.
- Employees could fuel vehicles and equipment by entering obsolete account numbers. We could not determine if fuel pumped under these numbers were for legitimate uses.
- The City's fleet manager also reported an employee was caught taking fuel for his personal vehicle by entering the number of a vehicle in the City fleet. City staff investigated the incident and discharged the employee.

Without improved controls, fuel losses would be difficult to detect, PWD fleet management is aware of these issues and in 2006, sought funding to implement a new fuel system. However, Public Works subsequently found that the system did not provide fully automated fueling and integration into the existing fleet management software. In June 2009, Public Works initiated steps to implement a new fuel transaction management system, called FuelFocus, to mitigate these risks. Public Works received Council approval to implement a new fueling system for three of the

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seven stations with the highest activity. According to Public Works, the new fuel system should provide improved controls to reconcile fuel purchases and inventories and limit fuel access.

In our opinion, PWD fleet management should complete the implementation of the fueling system for all City fuel pumps and provide an evaluation of its effectiveness in improving internal controls over fuel pump transactions.

**RECOMMENDATION # 20:** PWD fleet management should complete implementation of the fueling system at all City fuel pumps and evaluate its effectiveness at providing internal controls over fuel pump transactions.

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### Vehicles and equipment were not consistently secured or locked

Fleet policies frequently require drivers to lock and secure vehicles and equipment when not in use. The City's vehicle and equipment policies do not contain a similar requirement. During the audit fieldwork, we conducted a physical inspection of 26 randomly selected City vehicles. At the Municipal Services Corporation (MSC) lot, we found the keys for 10 of the Utility – Electric Operations trucks left in the ignitions with the doors unlocked.

#### Exhibit 7: Picture of Keys Left in Unlocked Vehicle During Physical Inspection



During our inspection, the MSC entry gates were also left open and unsecured, leaving the unlocked vehicles vulnerable. We also found an unlocked Palo Alto Utilities truck parked at the Stanford Medical Center with the keys in the ignition.

We shared our findings with the Utilities Department and the department directed staff to cease this practice. During our follow-up inspection in March and April 2009, we found that all of the Utilities trucks were secured and the keys removed, with one exception. Based on our advice, the employee removed the keys and secured the vehicle.

The importance of securing City vehicles is demonstrated by two examples. In October 2007, someone stole a CSD-Parks pickup truck from the MSC when an employee left the keys in the unlocked vehicle overnight and the MSC gate was left open and unsecured. Fortunately, the City recovered the stolen vehicle. In a second example, several pieces of equipment valued at \$16,000 were stolen from 3 Utilities

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service trucks when the items were left unsecured on or in the vehicles. The theft included two dirt compactors, a gas generator, a camera reel, and a digital camera.

In our opinion, the Public Works Department should include requirements for securing vehicles and equipment within the fleet policies and procedures, and departments should ensure compliance by all employees.

**RECOMMENDATION # 21:** PWD fleet management should include requirements for securing vehicles and equipment within the fleet policies and procedures, and departments should ensure compliance by employees.

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**A physical parts inventory had not been conducted for at least six years and the valuation of the inventory was not verifiable.**

An accurate and complete parts inventory is important to ensure needed parts are available for quick and efficient maintenance and repair of the City fleet. Parts purchases for FY 2009 totaled \$797,282. Although PWD fleet management reports an inventory valuation is provided to the City's accounting section at the end of each fiscal year, we could not verify the amount. We tested the parts inventory and discovered that the inventory listing was not updated for new or utilized parts, the inventory database was not accurate, and a physical inventory had not been conducted for at least 6 years. In addition, access to the inventory storage was not secured. As a result, we were unable to determine whether parts had been properly accounted for or if the parts inventory was efficiently or effectively utilized. Considering the dollar amount of the inventory purchases, we recommend that the PWD fleet management staff conduct regular inventories of the City auto parts, develop a system to ensure the database is accurate and complete, and secure access to the auto parts inventory. According to PWD fleet management, now that it is fully staffed, it is constructing a secure stockroom area and is surveying the existing inventory.

**RECOMMENDATION # 22:** PWD fleet management should conduct regular inventories of auto parts, develop a system to ensure the parts database is accurate and complete, and secure access to the auto parts inventory.



## **CONCLUSION**

Improvements can be made to reduce the cost and size of the City's vehicle and equipment fleet, provide funding stability, and to strengthen internal controls over fuel and parts inventory. The audit recommends alternatives to permanently assigning vehicles and equipment to individual users and departments. These alternatives include implementation of a centralized Citywide vehicle and equipment pool, rotating vehicles, exploring opportunities to rent specialized equipment or seasonal use equipment, and increasing usage of mileage reimbursement. Cost-effective utilization criteria should be developed, along with a Vehicle/Equipment Review committee to evaluate exemptions using established criteria. PWD fleet management has already taken steps to initiate improvements, including the implementation of a temporary freeze on non-urgent fleet replacements and review of underutilized vehicles.

## **RECOMMENDATIONS**

### **RECOMMENDATION # 1**

Public Works Department fleet management should continue to freeze replacement of non-urgent vehicles and equipment until it can reduce the size of the fleet and increase utilization.

### **RECOMMENDATION # 2**

Public Works Department fleet management should develop an action plan for increasing fleet utilization and identify an optimal fleet size and composition that includes eliminating or re-assigning underutilized vehicles, exploring opportunities to rent specialized equipment or seasonal use of equipment, not replacing vehicles, utilizing mileage reimbursement, rotating vehicles, and placing underutilized vehicles and equipment in a central motor pool.

### **RECOMMENDATION # 3**

The Public Works Department fleet management should complete implementation of a centralized Citywide vehicle and equipment pool, and make the Citywide pool accessible to all departments.

### **RECOMMENDATION # 4**

The City Manager's Office and the Public Works Department fleet manager staff should review the fleet's minimum utilization standards and consider increasing the standards to more cost-effective levels.

### **RECOMMENDATION # 5**

The City Manager's Office should establish a Vehicle/Equipment Review Committee with representatives from Public Works Department fleet management, Administrative Services Department's Budget staff, and the City Manager's Office to review vehicle and equipment replacements and exemption requests to the utilization requirements.

**RECOMMENDATION # 6**

Public Works Department fleet management should develop written standards, forms, and assessment criteria for the Vehicle/Equipment Review Committee in their evaluations of fleet utilization such as: number of similar units in the fleet, average annual miles/hours of similar units, consideration and description of special uses, cost-benefit of retaining the item in terms of program efficiency and service delivery, and mechanical condition.

**RECOMMENDATION # 7**

Public Works Department fleet management should conduct routine annual utilization assessments to identify vehicles and equipment for retirement, redeployment, inclusion into a centralized vehicle and equipment pool. Public Works Department fleet management should provide this information for the Vehicle/Equipment Review Committee to review the appropriateness of vehicle and equipment exemptions based on established criteria from Recommendation # 6 (above).

**RECOMMENDATION # 8**

Public Works Department fleet management should have the authority and responsibility to manage and operate the City fleet to ensure optimized use of fleet resources.

**RECOMMENDATION # 9**

Public Works Department fleet management should improve the replacement evaluation process through the following: revise the written policies to clarify replacement criteria, reinstate mechanical evaluations as part of the evaluation criteria for replacing vehicles (e.g. vehicles requiring cost-prohibitive repairs vs. those in good mechanical condition); and incorporate utilization requirements as part of the evaluation criteria to help ensure underutilized vehicles are not replaced.

**RECOMMENDATION # 10**

Public Works Department fleet management should revise the policy and procedures to clarify the take-home policy and conduct routine follow-ups with departments to document adherence to the policy.

**RECOMMENDATION # 11**

Public Works Department fleet management should establish a process to approve and evaluate requests to add to the City fleet. These requests should identify the budget impact of the addition and funding for on-going maintenance and replacement costs, the need for the addition including utilization of similar units, and the feasibility of other alternatives such as mileage reimbursement, rental, pooling, or sharing of similar units.

**RECOMMENDATION # 12**

Public Works Department fleet management should maximize use of Police Department patrol sedans and motorcycles, and Fire Department fire engines, by rotating vehicle assignments among lower and higher use areas.

**RECOMMENDATION # 13**

Public Works Department fleet management should develop written criteria for assessing the need of non-rolling stock equipment.

**RECOMMENDATION # 14**

Public Works Department fleet management should routinely review the database inventory for completeness and accuracy and develop necessary processes for departments to provide accurate and timely utilization data.

**RECOMMENDATION # 15**

Public Works Department fleet management and Administrative Services Department Budget should revise the methodology for charging user departments to include the total cost of operating the City fleet and Capital Improvement Project budget needs over the five-year Capital Improvement Project cycle.

**RECOMMENDATION # 16**

Administrative Services Department Budget Division and Public Works Department fleet management should revise the budget process to show fleet costs within each department's line item budget.

**RECOMMENDATION # 17**

Requests for fleet purchases should identify and budget an amount for on-going maintenance, operation, and replacement costs.

**RECOMMENDATION # 18**

Public Works Department fleet management and the City Manager's Office should develop a strategy to align future fleet replacements with the City's other strategies that promote Climate Protection Plan goals.

**RECOMMENDATION # 19**

Public Works Department fleet management should develop a system to reconcile fuel purchases, balances, and consumption reports.

**RECOMMENDATION # 20**

Public Works Department fleet management should complete implementation of the fueling system at all city pumps and evaluate its effectiveness at providing internal controls over fuel pump transactions.

**RECOMMENDATION # 21**

Public Works Department fleet management should include requirements for securing vehicles and equipment within the fleet policies and procedures, and departments should ensure compliance by employees.

**RECOMMENDATION # 22**

Public Works Department fleet management should conduct regular inventories of auto parts, develop a system to ensure the parts database is accurate and complete, and secure access to the auto parts inventory.

Attachment 1



Attachment 1

Attachment 1



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Attachment 1

**ATTACHMENT B****Equipment Management Division  
Fleet Replacement Criteria**

The following serves as a general guideline for replacing vehicles and equipment based on usage, operating costs, and downtime. Adjustments in time or miles will be made to replacement criteria for individual units as conditions warrant.

**CLASS 01-AUTOMOBILES**

COMPACT/INTERMEDIATE/WAGON	7 YEARS/70,000 MILES
POLICE/FIRE STAFF CARS	5 YEARS/70,000 MILES

**CLASS 02-AUTOMOBILES**

POLICE UNDERCOVER (in police service)	4 YEARS/50,000 MILES
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**CLASS 03-POLICE PATROLS**

FULL-SIZE PATROL SEDANS	4 YEARS/85,000 MILES
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**CLASS 04-TRUCKS TO 3/4 TON**

COMPACT/STANDARD PICKUPS	7 YEARS/70,000 MILES
PICKUPS ON CALL	3 YEARS/70,000 MILES
VANS/SERVICE BODIES	7 YEARS/70,000 MILES

**CLASS 05 TO CLASS 07-TRUCKS TO 24K LBS.**

TRUCKS WITH GAS ENGINE	8 YEARS/ 80,000 MILES
TRUCKS WITH DIESEL ENGINE	0 YEARS/100,000 MILES

**CLASS 08 TO CLASS 11-VARIOUS TRUCKS OVER 24K LBS.**

TRUCKS WITH SERVICE BODIES/DUMPS	10 YEARS/100,000 MILES
TRUCKS WITH AERIAL LIFTS	10 YEARS/100,000 MILES

**CLASS 12-AMBULANCES**

TYPE III UNIT COMPLETE	4 YEARS/85,000 MILES
RECHASSIS MODULE	4 YEARS/85,000 MILES

**CLASS 13-FIRE APPARATUS**

PUMPER ENGINES	20 YEARS/85,000 MILES
TRUCK AERIALS	15 YEARS/50,000 MILES

**CLASS 14 TO CLASS 15-STREET SWEEPERS**

3 WHEEL SWEEPERS	6 YEARS/60,000 MILES
4 WHEEL SWEEPERS	7 YEARS/60,000 MILES

**CLASS 16-PARKING SCOOTERS**

3 WHEEL MOTORCYCLE - GAS	5 YEARS/15,000 MILES
3 WHEEL MOTORCYCLE - ELECTRIC	7 YEARS/20,000 MILES

**CLASS 17-BACKHOES**

SMALL BACKHOE	10 YEARS/5,000 HOURS
LARGE BACKHOE	10 YEARS/6,000 HOURS

**CLASS 18-TRACTORS**

SMALL TRACTORS	12 YEARS/5,000 HOURS
LARGE TRACTORS	10 YEARS/6,000 HOURS

**CLASS 19-REFUSE EQUIPMENT**

LANDFILL DOZERS	7 YEARS/10,000 HOURS
LANDFILL COMPACTOR	6 YEARS/10,000 HOURS
SCRAPER	10 YEARS/10,000 HOURS
LOADER	8 YEARS/ 6,000 HOURS

**CLASS 20-FORKLIFTS**

VARIOUS MODELS	10-15 YEARS
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**CLASS 21 TO CLASS 22-AIR COMPRESSORS AND CHIPPERS**

180 CFM COMPRESSOR	10 YEARS/5,000 HOURS
TOWED CHIPPER	10 YEARS/7,000 HOURS

**CLASS 23 TO CLASS 28-METERED AND NONMETERED**

MISCELLANEOUS CONSTRUCTION EQUIPMENT, GENERATORS AND TRAILERS	5-15 YEARS/5,000 HOURS
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**CLASS 25-STANDBY GENERATOR SETS**

500 KVA UNITS

15 YEARS/5,000 HOURS

**CLASS 30-MOTORCYCLES**

VARIOUS MODELS

5 YEARS/25,000 MILES

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Public Works Department

**MEMORANDUM**

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From: James Keene, City Manager *PWA  
J.K.*

By: Glenn Roberts, Director Public Works *G. S. Roberts*

Date: April 14, 2010

Subject: Audit of Fleet Replacement and Utilization

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The Public Works Department is pleased to respond to the City Auditor's "Audit of Fleet Replacement and Utilization." Below are staff's responses to the audit's twenty-two recommendations.

**RECOMMENDATION # 1**

PWD Fleet Management should continue to freeze replacement of non-urgent vehicles and equipment until it can reduce the size of the fleet and increase utilization.

Agree .

Typically PWD Equipment Management submits vehicle and equipment replacement schedules with the Capital Improvement Program plan. These schedules prescribe purchases averaging \$3M annually. In FY 2010 PWD Equipment Management did not submit a replacement schedule, and limited fleet purchases to urgently-needed vehicles and equipment only. This was done as a proactive step towards implementing the proposed audit recommendations.

PWD Fleet Management will work collaboratively with the Administrative Services Department and the City Manager via a newly created Fleet Review Committee (FRC) to make fleet size and replacement decisions. The FRC is comprised of the Fleet Manager, Budget Manager and a representative from the City Manager's Office. The FRC will review fleet utilization, and will conduct programmatic analysis utilizing the revised guidelines and vehicle policy to ensure efficiency and cost effectiveness of fleet replacements and purchases.

Vehicle and equipment replacements will be included in the five-year Capital Improvement Program (CIP) plan once approved by the FRC. Any vehicle replacement needs identified outside of the annual budget process will also be reviewed and approved by the FRC and may be

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brought to Council if a Budget Amendment Ordinance or approval of contract is required. Equipment Management will procure and maintain fleet assets in the most cost effective and efficient manner in order to support City programs and service delivery.

### RECOMMENDATION #2

PWD Fleet Management should develop an action plan for increasing fleet utilization and identify an optimal fleet size and composition that includes eliminating or re-assigning underutilized vehicles, exploring opportunities to rent specialized equipment or seasonal use of equipment, not replacing vehicles, utilizing mileage reimbursement, rotating vehicles, and placing underutilized vehicles and equipment in a central motor pool.

Agree

PWD Equipment Management initiated a review of underutilized vehicles which resulted in four vehicles being voluntarily returned by the departments. Staff will continue to evaluate transport vehicles already identified as underutilized, and will follow with an assessment of metered equipment. The City's vehicle policy will be revised to detail a more stringent review and approval process. The revision will incorporate the FRC's role and authority, and will include forms and documents that will be utilized in the review process.

Due to timing and existing workload in PWD Equipment Management and the Administrative Services Department, staff will seek outside assistance to compile, analyze and report out on recommendations relative to vehicle assignment, rotation and utilization; the outsourcing of specialized equipment needs; motor pool options; mileage reimbursement, and pool car alternatives. This goal of this effort will be to maximize the utilization of fleet resources, and to improve the cost-effectiveness of the City Fleet in support of City programs; while assuring reliable service delivery. The City Manager has included a placeholder of \$483,000 in the Vehicle Replacement and Maintenance Internal Service Fund proposed in the FY 2011 budget as expected budget savings from improved cost-effectiveness of the fleet.

### RECOMMENDATION # 3

The Public Works Fleet Management should complete implementation of a centralized Citywide vehicle and equipment pool, and make the Citywide pool accessible to all departments.

Agree

Staff has already commenced the implementation of a centralized, automated pool vehicle reservation system, beginning with existing pool vehicles located at located at the Municipal Service Center. This phase is scheduled for completion by summer 2010. The next phase will involve the addition of existing Civic Center pool vehicles to the automated system, and is scheduled for completion by June 2011. In order to include other City facilities such as Lucie Stern, Elwell Court, and the libraries in the automated system, additional funding may be necessary. Staff will discuss the inclusion of additional funding with the Administrative Services Department as we prepare the FY 2012 budget.



RECOMMENDATION # 4

The City Manager's Office and the Public Works Fleet Manager staff should review the fleet's minimum utilization standards and consider increasing the standards to more cost-effective levels.

Agree

PWD Equipment Management will review current utilization standards in conjunction with the FRC. These standards include thresholds for mileage, engine hours and days used dependent upon the type of equipment. It should be noted that utilization guidelines, in order to be successful, be driven not only by cost comparisons with other agencies and the private sector; but also with the understanding that the City must own certain types of vehicles and equipment in order to provide timely services to the public as well as to fulfill its emergency response obligations.

The composition of the City's fleet is somewhat unique due to the City's ownership of a full-service public utility, Water Quality Control Plant and landfill. The necessary vehicles and pieces of equipment associated with these activities do not always meet established utilization criteria, so they may need to be exempted or monitored against different criteria such as days of use rather than engine hours, or engine hours rather than miles. Given the City's small service area (26 square miles, with 1/3 of that being open space), mileage thresholds cannot be the only evaluation criteria.

Staff could implement a new RFID system at the MSC and Civic Center if funding is available. The system would monitor the movement of all rolling stock, including trailers, which would pass RFID readers located at entry points enabling tracking and documentation for days used.

RECOMMENDATION # 5

The City Manager's Office should establish a Vehicle/Equipment Review Committee with representatives from Public Works Fleet Management, Administrative Services Department's budget staff, and the City Manager's Office to review vehicle and equipment replacements and exemption requests to the utilization requirements.

Agree

PWD Equipment Management will work collaboratively with the Administrative Services Department and the City Manager via a newly created Fleet Review Committee (FRC) to make fleet size and replacement decisions. The FRC is comprised of the Fleet Manager, Budget Manager, and a representative from the City Manager's Office. The FRC will review utilization, and conduct programmatic analysis applying the revised guidelines and vehicle policy to ensure efficiency and cost effectiveness of fleet replacements and purchases.

RECOMMENDATION # 6

Public Works Fleet Management should develop written standards, forms, and assessment criteria for the Vehicle/Equipment Review Committee in their evaluations of fleet utilization such as: number of similar units in the fleet, average annual miles/hours of similar units, consideration and description of special uses, cost-benefit of retaining the item in terms of program efficiency and service delivery, and mechanical condition.

Agree

PWD Equipment Management and the Administrative Services Department will seek outside assistance to compile, analyze and report out on recommendations relative to vehicle assignment, rotation and utilization; the outsourcing of specialized equipment needs; motor pool options; mileage reimbursement, and pool car alternatives. The goal of this effort will be to maximize the utilization of fleet resources, and to improve the cost effectiveness of the City Fleet in support of City programs; while assuring reliable service delivery.

Once findings are complete the City's Vehicle Policy will be revised and will include standards, forms and assessment criteria to be utilized by the FRC.

RECOMMENDATION # 7

Public Works Fleet Management should conduct routine annual utilization assessments to identify vehicles and equipment for retirement, redeployment, or inclusion into a centralized vehicle and equipment pool. PWD Fleet Management should provide this information for the Vehicle/Equipment Review Committee to review the appropriateness of vehicle and equipment exemptions based on established criteria from Recommendation #6 (above).

Agreed

Fleet utilization and requests for exemption or additions will be reviewed by the FRC as part of the annual budget process and creation of the five-year CIP plan.

RECOMMENDATION # 8

Public Works Fleet Management should have the authority and responsibility to manage and operate the City fleet to ensure optimized use of fleet resources.

Agree

Per City Municipal Code 2.08.190 (11) the responsibility of the Equipment Management division of the Public Works Department, is defined as follows: "To coordinate the needs of the city departments in their requirements for motorized equipment, to operate the city garage, actively supervise a preventative maintenance program, keep the operating records of all motorized equipment used or operated by the city, monitor the use of pool cars, and maintain fuel sites at city facilities;". Staff will restate this authority and responsibility within the revised Vehicle

Policy. In addition, the FRC will lend a Citywide perspective and a greater level of authority to decisions regarding the management of fleet resources.

RECOMMENDATION # 9

PWD Fleet Management should improve the replacement evaluation process through the following: revise the written policies to clarify replacement criteria, re-instate mechanical evaluations as part of the evaluation criteria for replacing vehicles (e.g. vehicles requiring cost-prohibitive repairs vs. those in good mechanical condition); and incorporate utilization requirements as part of the evaluation criteria to help ensure underutilized vehicles are not replaced.

Agree

PWD Equipment Management will include/clarify replacement criteria within the revised Vehicle Policy. This criteria will include the reinstatement of formal mechanical evaluations as part of the replacement analysis.

RECOMMENDATION # 10

PWD Fleet Management should revise the policy and procedures to clarify the take-home policy and conduct routine follow-ups with departments to document adherence to the policy.

Agree

PWD Equipment Management did revise the Vehicle Policy to include new take-home guidelines in January 2008. The draft was submitted to the City Manager's office for review and approval. Due to staffing changes, staffing shortages and higher priorities the review of the revised policy has been placed on hold. PWD Fleet Management will withdraw this submittal and incorporate this revision in the overall revision of the Vehicle Policy. The new take-home policy will include a form for departments to use to document their compliance with the policy.

RECOMMENDATION # 11

PWD Fleet Management should establish a process to approve and evaluate requests to add to the City fleet. These requests should identify the budget impact of the addition and funding for on-going maintenance and replacement costs, the need for the addition including utilization of similar units, and the feasibility of other alternatives such as mileage reimbursement, rental, pooling, or sharing of similar units.

Agree

The newly created Fleet Review Committee (FRC) will make fleet size and replacement decisions, review utilization, and conduct programmatic analysis applying the revised guidelines and vehicle policy to ensure efficiency and cost effectiveness of fleet replacements and

purchases. Newly created forms used in this review process will include budgetary impact information.

RECOMMENDATION # 12

Public Works Fleet Management should maximize use of Police Department patrol sedans and motorcycles, and Fire Department fire engines, by rotating vehicle assignments between lower and higher use areas.

Agree

PWD Equipment Management will continue to provide usage data to the Police and Fire Departments to enable staff to analyze vehicle assignments within their departments and develop rotation plans.

RECOMMENDATION # 13

Public Works Fleet Management should develop written criteria for assessing the need of non-rolling stock equipment.

Agree

PWD Equipment Management will include/clarify non-rolling stock guidelines within the revised Vehicle Policy. This criteria will include the reinstatement of formal mechanical evaluations as part of the replacement analysis.

RECOMMENDATION # 14

Public Works Fleet Management should routinely review the database inventory for completeness and accuracy and develop necessary processes for departments to provide accurate and timely utilization data.

Agree

For the last two years, staffing shortages have prevented timely update and review of some types of fleet data. Now that Equipment Management is nearing full staff, our usual update and review process will be reinstated.

RECOMMENDATION # 15

PWD Fleet Management and ASD Budget should revise the methodology for charging user departments to include the total cost of operating the City fleet, and project CIP budget needs over the five-year CIP cycle.

Agree

PWD Equipment Management and ASD staff have been working collaboratively on restructuring Fleet's SAP cost center structure so that it more accurately reflects the way cost categories are organized within the fleet database. Division activities such as in-house maintenance, contract maintenance, parts operations, fueling and motor pool operations have been segregated in SAP to facilitate the ready and accurate capture of expenditure information. At the same time, staff has revised the cost accounting methodology to more accurately capture all costs associated with managing the fleet. The new methodology has been applied to the departmental allocations submitted to ASD Budget for the FY 2011 budget. In addition PWD Equipment Management developed a five-year projection which is included in the FY 2011 CIP.

#### RECOMMENDATION # 16

ASD Budget Division and PWD Fleet Management should revise the budget process to show fleet costs within each department's line item budget.

Agree

The ASD Budget Division currently budgets for fleet costs in each department's line item budget as allocated charges from the the Vehicle Replacement and Maintenance fund, which is an Internal Service Fund. This type of fund provides goods or services to other funds on a cost-reimbursement basis. Allocated charges are an acceptable method of recovering costs for centralized services, including indirect costs. As with other allocated charges in the City's budget, fleet costs are distributed to each department based on an allocation formula. This formula takes into account the cost of replacing and maintaining the vehicles assigned to each department. This is similar to the distribution of allocated charges for computer replacement and maintenance and printing and mailing costs. All allocated charges are based on the internal service fund model of centralizing costs for a specific aspect of the operation and then allocating those costs based on a reasonable method. Allocated charges currently appear in SAP financial reports and will continue to appear in the budget detail within individual department budgets.

During the development of the annual budget, a committee of ASD and PW staff will review department fleet requests in relation to other options including mileage reimbursement. During the budget process departmental requests for additions to the fleet will be evaluated with other department requests to ensure that the department has considered the budget tradeoffs. The goal of this step will be to limit the overall increase in departmental budgets that is due to vehicle requests.

It is important to point out that past budget decisions made by staff during years of budget constraints have resulted in a decrease in the cost of the fleet, which has resulted in reduced budget expense for departments in the General Fund. This demonstrates the current approach to assessing fleet costs, which is done on an annual basis. The steps outlined above should enhance this annual budget process by incorporating the decisions at the department level.

RECOMMENDATION # 17

Requests for fleet purchases should identify and budget an amount for on-going maintenance, operation, and replacement costs.

Agree

It is staff's general rule, with some minimal exceptions, to budget for on-going maintenance, operation, and replacement costs. An example of an exception is in the case of unique equipment like the Police Mobile Command Vehicle, which was acquired with grant funding, however there is no replacement charge budgeted. In addition, in past years where the General Fund could not sustain increases the allocation were not fully charge.

RECOMMENDATION # 18

PWD Fleet Management and the City Manager's Office should develop a strategy to align future fleet replacements with the City's other strategies that promote CPP goals.

Agree.

As the City further refines its Climate Protection goals and strategies, staff will review this recommendation and determine opportunities for incorporating a recommended strategy.

RECOMMENDATION # 19

PWD Fleet Management should work with the Administrative Services Department and Utilities Department (for CNG) to develop a system to reconcile fuel purchases, balances, and consumption reports.

Agree

PWD Equipment Management will develop a process for reconciliation of fuel purchases, balances and consumption for submittal to ASD. Staff has begun working with Utilities to develop commodity cost methodologies for CNG sales to City and externally.

RECOMMENDATION # 20

PWD Fleet Management should complete implementation of the fueling system at all city pumps and evaluate its effectiveness at providing internal controls over fuel pump transactions.

Agree

PWD Equipment Management is currently installing an electronic fueling transaction management system (FuelFocus) which will be fully implemented by December 2010. The FuelFocus system will replace an existing system that has become increasingly inaccurate and unreliable.

RECOMMENDATION # 21

PWD Fleet Management should include requirements for securing vehicles and equipment within the fleet policies and procedures.

Agree

The revised Vehicle Policy will include clear guidelines regarding securing of vehicles and equipment.

RECOMMENDATION # 22

PWD Fleet Management should conduct regular inventories of auto parts, develop a system to ensure the parts database is accurate and complete, and secure access to the auto parts inventory.

Agree

In 2006, the existing parts storeroom was moved to a temporary location so that the mezzanine storage areas in the existing parts room could be replaced with structures that met seismic code requirements. The new mezzanines were completed in 2007; however, due to earlier mentioned staffing shortages, PWD Equipment Management has only recently been able to commence moving the inventory into the new secure, dedicated parts storeroom. All parts and supplies will be surveyed, inventoried and moved to their new location by December 2010. After the initial inventory reconciliation is complete, PWD Equipment Management will reinstitute quarterly inventory counts in accordance with Division policy.



## FINANCE COMMITTEE

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Regular Meeting  
Tuesday, April 20, 2010

#### 4. Audit of Fleet Utilization and Replacement.

City Auditor, Lynda Brouchoud offered an overview of the \$3 million savings identified in the report. She said that \$2.5 million had already been realized through the deferred fleet replacement. She said there was an annual cost of \$396,000 for the underutilized transport vehicles. In the proposed budget the City Manager has included a \$483,000 savings for fleet efficiencies. She said there was another \$123,000 identified through fuel recoveries due to alternative fuels. She said the scope of the audit was to review the economy and efficiency of the program. To accomplish this Staff analyzed City policies for replacement as well as utilization requirements. They reviewed the internal controls of fuel purchases and the fleet management strategy for climate projection goals. They focused on FY 07-09 and on non-emergency vehicles. She said that in 2009 the City had 630 units, 461 were rolling stock. Public Works valued the fleet at \$32 million before depreciation and \$10.5 million after depreciation. The Vehicle Replacement Fund was responsible primarily for the operations, maintenance, and replacement of most of the City's fleet. She said the report consisted of three primary findings. Although the City avoided spending about \$2.5 million in Fiscal Year 2010, longer term efficiencies could be realized through reducing the fleet. She said that 35% of the transport vehicles did not meet the minimum use requirement in FY 08-09. Out of the special purpose or work platform vehicles 25% did not meet the minimums. A potential reason for this was that there was not a central vehicle pool where employees could use vehicles, there were several pools and they were manually managed. The one piece they looked at for emergency vehicles was on the varying use. For example, the 25 marked police cars had wide varying use. In one year it varied from 1,100 miles to over 36,000 miles. It was recommended that those vehicles rotate to more evenly distribute the mileage and extend the life of the vehicles. Criteria assessing the need for the non-rolling stock materials should be created. She also said that the information in the Public Works database should be kept current. She said that Public Works had taken



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some proactive steps based on the findings. She said the second finding focused on the funding stability of the vehicle replacement fund. In FY 06-08 the expenses exceeded the revenues. Revenues were mainly generated through the charges of the expenses to the departments that used the fleet. They found that the charges were not enough to cover the fleet costs. The costs that were distributed were done by allocated charges which did not allow the departments control over the line items in their budget. Mileage reimbursement was included in a department's line items. She said, the audit also has a recommendation about the Climate Protection Plan. In Fiscal Year 2009 the City had about 87 CNG vehicles and 3 hybrid vehicles. There has been a lot of developments in the field and it would be a good time to take advantage of new technology and have a strategy in place. The third finding had to do with the fuel and parts inventory. Between the Compressed Natural Gas vehicles (CNG), and the unleaded and diesel fuel vehicles, the consumption reports did not match with the balances that were provided. There were also issues with vehicles not being locked at the Municipal Services Center (MSC). She recommended policies were revised to cover this. The parts inventory could not be verified as there had not been an inventory done in a number of years.

Council Member Klein said that 7-8 years ago the vehicle usage requirement was reduced. He said there was no explanation as to why that happened. It seemed counter intuitive as the vehicles become more reliable.

Director of Public Works, Glen Roberts said there were three criteria for annual utilization. He explained that it was 2,500 miles per year, or 220 days per year, or, for equipment, 50 hours per year. He said that many of the vehicles may be utilized less than 2,500 miles but were utilized 220 days per year. He said it makes sense because Palo Alto was condensed. He added that Staff agreed with the City Auditor that the process needed to be refined.

Council Member Klein said the geography of the City had not changed since the utilization requirements had changed. He said he was trying to find ways to be more efficient. He added that if using a City car to drive from City Hall to the Service Center, there should be a centralized pool.

Mr. Roberts said that from either place just about every location in the City could be reached in less than five miles. Vehicles could be used every day and accumulate 2,500 miles, it was not a case of them driving solely between MSC and City Hall. He said that several vehicles on the list were used by Building Inspectors who drive out virtually every day to perform site inspections, but they were still used less than 2,500 miles. He addressed the replacement cycle

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by stating that the annual mileage usage threshold was lowered at the same time the replacement cycle was lengthened.

Council Member Scharff asked when the vehicle reservation system would be implemented.

Mr. Roberts said Staff was projecting to have a reservation system up by the end of the calendar year. He added that there would still be some need to have a bit of decentralization.

Council Member Scharff asked if the reservation system would allow users to choose which location the reservation was for.

Mr. Roberts said yes.

Council Member Scharff asked about the three criteria. He asked what the advantage would be to changing it to 5,000 miles instead of 2,500.

Mr. Roberts said the 5,000 level was causing them to target many vehicles creating a need for more reviews.

Council Member Scharff asked if the system should track the criteria. Otherwise, the 2,500 was a proxy for the 220 days or the 50 hours, then you see if you meet the other two criteria and this might not be the most efficient approach.

Mr. Roberts said Staff was working toward better track utilization logs.

Council Member Scharff stated that he felt the fleet was over stocked, and asked if it was going to be reduced when the new system was implemented.

Mr. Roberts said it was their goal to reduce the size of the fleet, the expense of the fleet and improve the utilization. He said that in order to accomplish this they must review the budget issues that may affect the need of vehicles and evaluate the specific vehicles with the client departments.

Council Member Espinosa asked about Staff's consideration of the shared bicycle plan and how it would affect the vehicle use rates.

Ms. Brouchoud said it's a great idea. We don't have available data at this time, but it brings up ideas that you could have the reservation system also apply to bicycles. They made general recommendations and hope Public Works will

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utilize the whole tool kit such as having a reservation system, utilizing mileage reimbursement, with some exceptions for the unique situations Mr. Roberts referred to. Those should be the exception and not the default, especially in looking at the cost of having underutilized vehicles.

Mr. Roberts said it was in place through the Community Services Department. He said there was some utilization during appropriate weather.

Council Member Espinosa said he would be interested in the City Auditor's comments on the implementation plans.

Chair Schmid said that while some vehicles were used every day they were being used for round trips and then sitting all day. Fifty hours wasn't very much when there were several thousand hours in the work year. He asked if there was a metric of emergency services when several pieces of equipment were required at the same time.

Mr. Roberts said the hour issue was an hour meter on the equipment that measured the amount of time it was actually running. He said that during transport, and during the time the worker was completing other tasks on the job site, the meter wasn't running. It was not a good indicator of the 2,080 hour work year. He said that most of the emergency equipment was in Public Works and Utilities.

Chair Schmid asked about the 16.5 fleet maintenance employees, with low usage rates the maintenance should not be that great.

Mr. Roberts said the bulk of their time was spent on heavy equipment, not on regular vehicles. There were two managers for 14 people. That Staffing level had been reviewed several times, for the current fleet mix was it a valid staffing ratio. He said it had been considered to change the sourcing on the sedans and light trucks to an outside contract which would include maintenance.

Ms. Brouchoud, returning to the presentation, said they were recommending a replacement freeze of non urgent vehicles until the analysis of the under-utilized vehicles was complete. They were recommending that the City Manager and Public Works consider increasing the fleet utilization requirements and identify an optimal fleet size. They recommended a tool kit approach where all opportunities were available such as renting, pooling, etc. She said a best practice would be to have a committee from a variety of departments that could review these options. Conducting annual assessments to cover programmatic changes should be looked at. Public Works should have the

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authority to manage the fleet. They recommended revising Vehicle Policies and Procedures to address areas on the report, revising the methodology for the distribution of charges among the client departments, identifying the budget impacts for additional units, and developing systems for reconciliation of fuel purchases and inventory balances. She said that Public Works has reviewed fleet utilization and already reassigned four vehicles. They were in the process of implementing a reservation system and installing an electronic fueling system. She said there would be some challenges in implementing the recommendations. Cultural and procedural changes would be needed.

Council Member Scharff asked about the implementation of revising the methodology for charging the client departments.

Mr. Roberts said it was a cross departmental effort. Public Works identified the replacement costs, allocation spreadsheets which then were forwarded to Administrative Services who added that to the department budget through allocated charges. They have not been able to track well with the inflated cost of the vehicles.

Administrative Services Director, Lalo Perez added that it was important to note that in prior budgets they made funding decisions to not fully fund the replacement costs of the vehicles in order to accomplish one-time savings.

Council Member Scharff said that when an employee makes a choice to use a vehicle, the usage should affect the budget in a way that provides the department head with an incentive to control the cost. He asked if that was the vision of the recommendations.

Mr. Perez said that Staff agreed with that vision, but it would take longer to implement. They would have to review expanding the car allowance policy as it might cost less to offer a car allowance rather than the use of a car.

Council Member Scharff asked if the City was going to move away from having a compartmentalized department based fleet toward a City fleet.

Mr. Roberts said that was the common vision. To address the issue of putting employees on a mileage reimbursement plan he said, there were some conflicting policy issues, for example employees that did not commute to work using their cars would have to start driving to work if they had to use their own cars which might even move them into a car with a larger carbon footprint. He said that issues such as that would be overcome; they just were not yet sure what that would look like. He said the word transport had been used to broadly. These vehicles were not simply transporting people. Many were

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transporting tools and equipment which needed a home. He said it would not be efficient to have workers move equipment from vehicle to vehicle or store it in their private vehicles. Revising the policies for pure transit vehicles will be a quicker process.

Ms. Brouchoud said they did look at this. There were some light pieces of equipment that could be transported between vehicles. The decision would have to be made about the amount of equipment, and whether you could have a pool car with the light pieces of equipment available for different people to use.

Council Member Scharff asked if the City Auditor would be part of that committee.

Mr. Perez said that typically the City Auditor acted as an advisor rather than a member of a committee.

Council Member Scharff asked about take home vehicles.

Mr. Roberts said there were two categories of equipment that went home with Staff. The bulk of the take home vehicles are standby vehicles in the fleet that went home with employees on a rotating basis to allow for the employees to respond directly to a site. The second category is exclusive use vehicles, of which there used to be 12, now there were 3 in the fleet.

Council Member Klein asked why the purchase of gasoline has increased.

Ms. Brouchoud said that should be reviewed. The data the Auditor's Office received from Public Works actually showed some decreases. This data is based on the fiscal year. The data Mr. Van Orsdol presented last night was on the calendar year basis. But even then, given some of the discrepancies, the data should be reviewed.

Council Member Klein asked if Staff could respond to efficiencies regarding the cost of new vehicles with respect to determining what size and type of car to purchase as well as how to determine the best price to pay for it.

Ms. Brouchoud said that was not in the scope of the audit.

Mr. Roberts said there were specific guidelines regarding the size of the vehicles for given tasks. He said their goal was to purchase the least expensive, lowest carbon footprint vehicle possible for the task.

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Council Member Klein said that would be expected. He wanted to know if the City Auditor could be a second set of eyes to determine if that was followed through on.

Mr. Roberts said that, regarding the price of the smaller vehicles, they try to piggy back on a larger bid, such as one by the State of California, so they get the better price based on quantity. Larger equipment was awarded to the lowest bid.

Chair Schmid asked about outsourcing to a regional pool for equipment or with fleet suppliers.

Mr. Roberts said there were some aspects of shared use, such as in the Fire Department. They had been meeting with some outside suppliers regarding how that process would work. The budget process has not had this input yet.

Mr. Perez said there would be some factor for it in the budget as a placeholder.

**MOTION:** Council Member Klein moved, seconded by Council Member Espinosa that the Finance Committee recommends that the City Council accept the Audit of Fleet Utilization and Replacement, and direct Staff and the City Auditor to report on the success of these implementation efforts to the Finance Committee in January, and direct the City Auditor to determine whether there had been a spike in the purchase of gasoline by the City in 2009 and if so why, and to also direct the City Auditor to determine if the City was buying the right size vehicles, and paying the best price.

Council Member Scharff asked to amend the Motion to direct the City Auditor to identify any areas where there had been resistance from Staff.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** that the City Auditor identify any areas where there had been resistance from Staff.

Council Member Klein said he did not mean for the vehicle report on the purchase of vehicles to be due in January, but rather that it should be added to the work plan. He added that he regarded this report as an opportunity for significant savings, and for continued cooperation by Public Works, but he said it was unfortunate that there had been that large of a problem.

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Council Member Espinosa added that the implementation time-line should also be developed.

Council Member Schmid said the best metric for this would be the budget in anticipation of what will come.

**MOTION PASSED 4-0.**