

MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jimmy L. Morales, City Manager
VIA: John Woodruff, Budget and Performance Improvement Director 
FROM: James J. Sutter, Internal Auditor 
DATE: July 2, 2014
AUDIT: Fleet Management Division's Vehicle and Equipment Disposal Audit
PERIOD: September 1, 2009 to February 28, 2014

This report is the result of an audit conducted at the request of the City Manager's Office concerning the Fleet Management Division's repair of vehicles and equipment prior to being decommissioned and their subsequent disposal through public auction, trade-in or donation. All testing focused on City owned vehicles and equipment disposed of between September 1, 2009 and February 28, 2014 according to FASTER System generated reports.

INTRODUCTION

Despite the fact that the size and composition of the City's motor fleet can fluctuate, the Fleet Management Division maintained and repaired 829 sedans and light trucks plus approximately 342 various pieces of heavy trucks and equipment such as all-terrain vehicles, watercraft, trailers, pressure washers and motorcycles in 2013. In addition, they also maintain 49 vehicles for the neighboring Village of Key Biscayne whose transactions were not reviewed.

Upon purchase, the pertinent data (cost, make, model, description, etc.) for these City owned vehicles and equipment are entered into the Fleet Management Division's FASTER System which is the software used for asset management, automotive parts, mechanic labor and fuel consumption tracking. Especially important is the entry of the item's estimated useful life in months for depreciation purposes (straight line depreciation with no residual value is used) and to help identify when the item is to be considered for replacement. Most vehicles and equipment's estimated useful life is five to seven years while boats are usually ten years.

In coordination with the various City departments and divisions, the Fleet Management Division annually develops a list of replacement vehicles and equipment based on a combination of factors that include age, condition, maintenance/repair/collision expenses and operating environment. This listing as well as any others submitted by a department/division as a part of a service level enhancement initiative is subject to approval by the City Commission for funding during the budget process. If approved, the needed vehicles and equipment are to be purchased through the City's normal procurement process.

Although there are no documented City established guidelines or divisional standard operating procedures maintained, inquiries with management found that typically only minor approved repairs are to be completed during the six months prior to the items' pending disposal. However, exceptions may be approved based on the availability of substitute items, the cost of the repair, the desire to make the needed repair and to extend the item's useful life thereby postponing the disposal date accordingly, etc.

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The distribution of warehouse parts begins when a work order is opened for repair service or scheduled maintenance of vehicles and equipment. A work order is initially prepared by the Fleet Service Representative in the division's FASTER System upon the receipt of a vehicle complaint/request for service form completed by the individual bringing the vehicle in for service.

A mechanic is assigned to evaluate the needed repairs and to perform the required service work. Any needed parts are obtained through the on-site warehouse upon identifying what work is required. All issued parts and the mechanic's time (a fixed hourly rate is approved for each fiscal year which is currently \$90 per hour) are included in the designated work order so that they can be charged back to the user department/division.

Lastly, City Code Sections 2-315(c), (d) and (e) respectively describes the following three options available for the City Manager or his designee to dispose of surplus stock (defined as all supplies, materials and/or equipment that are no longer used or that have become obsolete, worn out or scrapped):

- Decommissioned City vehicles and equipment can be sold at public auctions to the highest responsible bidder in conformance with competitive conditions. All auctioned items are sold on an "as is" basis as their individual repair histories are not disclosed. The Fleet Management Division disposed of 630 of the 657 total vehicles and equipment decommissioned during the 54 month audit period or 95.89% via public auction.
- Another option available is to exchange or trade in surplus stock that does not exceed a replacement value of \$25,000. City Commission approval shall be obtained if the replacement value of the item to be exchanged or traded exceeds \$25,000. Nineteen decommissioned vehicles and equipment were disposed of through trade-ins to Bobcat of Metro Dade, Giliberti, Kelly Tractor, etc. during the audit period or 2.89% (19/657).
- Surplus stock can also be donated to another governmental entity, agency, or not-for-profit organization without being placed for public sale if the donation serves a charitable or public purpose and is in the best interests of the City. In these cases, the City Manager shall disclose all information to the City Commission beforehand if the value exceeds \$25,000 and afterwards if it is less. Only eight vehicles and/or equipment equaling 1.22% of the total population (8/657) were donated to Callao, Peru; Ica, Peru; Project Medishare for Haiti and the Miami-Dade College's School of Justice during the audit period.

OVERALL OPINION

Testing showed that the Fleet Management Division maintained an adequate level of internal controls over vehicle and equipment repairs and disposals. However, Internal Audit noted that only one personal vehicle was traded-in at substantially below fair market value and deviated from normal practices which raises concerns as to the legitimacy of the transaction. Also, it was noted that costly unsupported repairs were completed within the six months prior to disposal in contradiction to verbally stated practices. Finally, the lack of documented guidelines and standard operating procedures can potentially lead to unnecessary expenditures that may not be recovered at the time of sale, etc.

PURPOSE

The purpose of this audit was to determine whether the Fleet Management Division maintained organized, complete and sufficient supporting documentation; whether internal controls were soundly developed and a proper segregation of duties existed; whether tested repairs conducted prior to six months of the disposal date were warranted in adherence with established guidelines and standard operating procedures; whether tested vehicles and equipment were properly disposed of through auction, trade-in or donation; and whether all tested transactions were correctly recorded in the City's Financial System.

OBJECTIVES

1. Confirm that pertinent standard operating procedures exist, are known and are followed by staff.
2. Confirm that maintained supporting documentation is organized, complete and sufficient.
3. Confirm that the internal control process is adequate and that a proper segregation of duties exists.
4. Confirm that tested repairs performed in the last six months before the item's disposal were warranted.
5. Confirm that tested vehicles and equipment were properly disposed of in accordance with City Code Section 2-315.
6. Confirm that tested transactions were accurately recorded in the City's Financial System.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding: *The Trade-In of a City Owned Personal Vehicle at Substantially Below Fair Market Value Deviates from Normal Practices and Raises Concerns as to the Legitimacy of the Transaction in the Absence of Documented Guidelines and Standard Operating Procedures*
City Code Section 2-315(d) states "The City Manager or his designee shall have the authority to exchange or trade in surplus stock that does not exceed a replacement value of \$25,000. City Commission approval shall be obtained if the replacement value of the item to be exchanged or traded exceeds \$25,000." A review of the Fleet Management Division's FASTER System (software used for asset management, automotive parts, mechanic labor and fuel consumption tracking) report found that 19 of the 657 vehicles and equipment decommissioned and disposed of during the audit period were traded in as part of past practices. Of these, ten were classified as equipment (Bobcats, trailers, clay tennis court rollers, etc.), eight involved heavy duty trucks (Fire pump trucks, backhoes, etc.) and one was for a personal vehicle (a 2006 Ford Explorer).

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The prior Fleet Management Director terminated his employment from the City on May 18, 2012 whereby his replacement was selected shortly thereafter and has held the position since. As a result of this personnel change, all testing centered on FASTER System reports, hard copy files maintained for each vehicle/equipment plus inquiries of current personnel. Based upon these information sources, it was found that personal vehicles are always to be sold at public auction but that heavy duty trucks and equipment are occasionally traded-in to try and command a higher sales price used to offset the new item's purchase price.

Consequently, additional analysis was performed on the 2006 Ford Explorer (vehicle #1442) which was originally purchased for \$23,951 for use by the former City Attorney. Upon satisfying its sixty month life expectancy, the vehicle was subsequently traded in on March 21, 2012 to the Duval Ford dealership located in Jacksonville, FL which is a primary supplier of vehicles to the City.

A review of the Kelley Blue Book website found that this vehicle with approximately 41,000 miles (actual mileage was 40,471 at the time of trade-in) would return approximately \$8,599 as of May 22, 2014 if in good condition which represents 54% of all vehicles valued. The lesser trade-in value associated with "good" condition was used to be conservative despite several Fleet Management Division staff members who reported that the vehicle most likely was in "very good" condition which would warrant a higher price. Furthermore, the aforementioned trade-in value of \$8,599 would be discounted since it was calculated as of May 22, 2014 which is 26 months after the March 21, 2012 actual trade-in date.

Despite these estimated valuations, Duval Ford only gave the City \$5,300 for the 2006 Ford Explorer which was subsequently applied against the purchase price of a 2013 New Generation Police Interceptor sedan. This \$5,300 trade-in price received is \$3,299 less than the Kelley Blue Book valuation and the disposal of the personal vehicle through trade-in rather than public auction deviates from standard divisional practices.

Finally, the City has not designated specific criteria that need to be satisfied (age, condition, repair history, availability of loaners, etc.) barring accidents or significant repairs concerning whether to decommission a vehicle or piece of equipment. Furthermore, the Fleet Management Division has not created standard operating procedures detailing the corresponding actions to be followed by staff in the completion of these duties. Therefore, each respective situation is handled on a case-by-case basis which can potentially lead to disagreements with the user departments/divisions, unnecessary expenditures that may not be recovered at the time of sale, etc.

Recommendation(s):

Barring the elimination of the trade-in provision found in City Code Section 2-315(d), stronger internal controls surrounding these transactions should be established and followed to better ensure that the City is properly compensated in the future. In addition, the City Administration should decide whether to continue to investigate the 2006 Ford Explorer trade-in transaction to determine if any additional actions are warranted.

The City Administration should also establish guidelines as to the criteria that are to be satisfied before vehicles and equipment are decommissioned. Once established, the

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Fleet Management Division should promptly draft standard operating procedures that descriptively detail their staff's roles in the completion of these duties. Standard operating procedures are beneficial as they serve both as a benchmark to measure individuals' performance and as an instruction manual in the event employees' change. Upon completion, they should be distributed to all applicable personnel so that they can be read, understood and followed.

Management Responses (Fleet Management Division):

Current practice of the Fleet Management Division is not to trade in vehicles and equipment toward the purchase of a new unit, as disposal of replaced units via live auctions typically yields better value for the City. There could be the rare exception to this practice, as in the case of some highly specialized, low demand equipment, or as a result of unforeseen circumstances.

There are over 100 vehicle/ equipment classes supported by the Fleet Management Division, with varying replacement and operating criteria. The process used to identify vehicles and equipment to be disposed of commences with the generation of a list (from the FASTER Fleet Management System) of vehicles/equipment projected for near-term replacement. The replacement date is originally determined and entered into the system based on the unit's in-service date and projected useful life.

In order to validate its disposal status, the current condition of the unit is then carefully considered, in conjunction with criteria that includes:

- Useful life
- In-service and targeted replacement dates
- Odometer reading
- Operating hours meter reading
- Maintenance and repair expenses
- Other operating expenses
- Usage characteristics and operating environment

The list of vehicles/equipment slated for disposal will also include units which have been "deadlined" or decommissioned due to major collision damage, as well as vehicles with excessive repair costs in comparison to their salvage value. An occasional exception may need to be made in one or more of the following situations:

- Replacement vehicle or equipment has not been received and/or prepared for service.
- No pool vehicle or back-up equipment is available to maintain continuity of service.
- Another department has a critical need for the vehicle/equipment and disposal needs to be deferred.

Fleet Service Representatives managing the scheduling of preventive maintenance service and repair work typically bring to the attention of one or more of the Fleet Management team any repair expenses projected to be significantly higher than standard maintenance and repairs costs on vehicles within a year, or so, of projected replacement to determine if the expense is warranted, or can be avoided. The decision to proceed, or defer is then made based on previously mentioned considerations.

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Based on the above exceptions, it might be necessary to perform vehicle/equipment repairs that might not otherwise been required in order to maintain service continuity and/or correct life/safety conditions.

The above-mentioned existing general practices and criteria, including the rationale used for performing significant repairs, will be incorporated into fleet disposal procedures.

Management Responses (City Manager's Office):

In order to determine if any additional actions are warranted in regards to the trade-in transaction, the City Manager is referring this matter to Internal Affairs for a complete investigation.

2. Finding – *Costly Unsupported Repairs Were Completed Within the Six Months Prior to Tested Vehicles and Equipment Disposals in Contradiction to Verbally Stated Practices*
Barring the unpredictability of accidents and major repairs, City owned vehicles and equipment are typically slated for replacement at the beginning of the fiscal year based on funding approval in the budget process following the expiration of the items designated useful life. The corresponding purchase of these new approved items occurs during the fiscal year contingent on the procurement process.

Current Fleet Management Division staff members stated that typically only minor approved repairs are to be performed during the six months prior to the vehicle or equipment's slated disposal date. However, exceptions may occur and the repairs completed depending on the availability of substitute items, the departments/divisions needs, the desire to make the needed significant repair and to extend the item's useful life thereby postponing disposal accordingly, etc. Regardless, the City does not disclose vehicles and equipments' repair histories prior to sale at public auction as all items are sold "as is" so the sales price typically does not reflect any recently performed significant repairs.

A total of \$310,959 in repairs (includes both parts and labor charges) were performed during the last six months of the 657 vehicles and equipment disposed of during the 54 month audit period according to Fleet Management Division's FASTER System reports. Further analysis was performed on the stratified sample selected of 52 vehicles and equipment whose disposal price exceeded \$1,000 and their corresponding percentage of repairs in dollars was at least 50% of the disposal price whereby the following was found:

- A total of \$86,032.33 in repairs was billed and collected on these 52 items for an average cost of \$1,654.47 each. Examples of noted repairs included the replacement and/or repair of tires, brakes, air conditioning systems, transmissions, fuel pumps, u joints, etc. but none of the vehicles or equipments' useful lives were extended as a result.
- Supporting documentation as to the need for these repairs was frequently not maintained on either the FASTER System or in the Fleet Management Division's corresponding hard copy files. Therefore, Internal Audit could not determine the existence of any extenuating circumstances surrounding the necessity of the completed repairs (the lack of substitute items, were management approvals received, etc.).

- The FASTER System does not automatically alert users that the entered vehicle or equipment number is slated to be decommissioned within the next six months. Instead, it must be manually determined upon review of the item's purchase date, incurred operating expenditures and listed useful life in the FASTER System by staff prior to any repairs being performed thereby increasing the possibility that unnecessary work may be performed.
- Fleet Management Division staff stated that enterprise fund departments and divisions such as the Parking Department and Public Works Department's Water, Sewer, Storm Water and Sanitation Divisions have more leverage concerning repairs than those in the general fund. Therefore, the Fleet Management Division stated that they may acquiesce if these enterprise fund departments/divisions strongly insist that the needed repairs are made regardless of the vehicle or equipment's disposal date.

Recommendation(s):

The City Administration should establish guidelines concerning vehicle and equipment repairs once they have been slated for disposal. Once created, the Fleet Management Division should draft standard operating procedures detailing employees' roles in this process with management providing active oversight for its implementation and to help ensure that only approved repairs are performed. Lastly, sufficient documentation should always be maintained to support any policy deviations with the proper management approvals.

Management Responses (Fleet Management Division):

It should be noted that, at times, a decision on whether to send a vehicle or equipment to auction, or to delay its disposition, may occur without much advance notice. The decision may be affected by failure or unavailability of other similar equipment in the department's fleet; the equipment may be of a critical nature and in constant use, so that the department may not be able to send it to auction until the replacement unit arrives; and other unexpected circumstances. In addition, maintenance and repairs are occasionally performed on vehicles and equipment earmarked for disposal in order to maintain it in safe operating condition especially when there isn't a spare vehicle or piece of equipment available to replace it.

It should be noted that of the stratified sample of (52) vehicles 92%, or (48) of the vehicles/equipment were active units as follows:

- (26) Life safety response vehicles from Police, Fire and Ocean Rescue
- (22) Service and utility vehicles and equipment involved in service, repair and maintenance operations for the Water, Sewer, Streets, Property Management and Sanitation Divisions of the Public Works Department, as well as for the Recreation and Greenspace Divisions of the Parks Department, and the Parking Department.

Due to the operating nature of the above (48) vehicles, involving response to life/safety issues, and the maintenance of public spaces and rights-of-way, as well as from a risk management perspective, it would not be advisable to defer any prescribed maintenance and repairs that would compromise the operation of the vehicle and/or attached ancillary service equipment, as well as operator safety and comfort. The remaining (4) vehicles from the sample were personal sedans from the Parking, Building and Code Compliance

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Departments.

Fleet Service Representatives managing the scheduling of preventive maintenance service and repair work typically bring to the attention of one or more of the Fleet management team any repair expenses projected to be significantly higher than standard maintenance and repairs costs on vehicles within a year, or so, of projected replacement to determine if the expense is warranted, or can be avoided. The decision to proceed, or defer is then made based on previously mentioned considerations.

The above-mentioned existing general practices and criteria, including any significant repairs to vehicles originally targeted for disposal will be incorporated into the previously mentioned fleet disposal procedures.

EXIT CONFERENCE

An exit conference was held on June 18, 2014 at the Fleet Management Division's offices with Jorge Cano (Fleet Management Division Director), Javier Del Rio (Fleet Analyst), James Sutter (Internal Auditor) and Mark Coolidge (Senior Auditor) attending. Audit findings and recommendations were discussed, as were management responses, which are included herein. All were in agreement with the contents of this audit report.

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(Audit performed by Senior Auditor Mark Coolidge)

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