

City of Reno

A Report to the Reno City Council

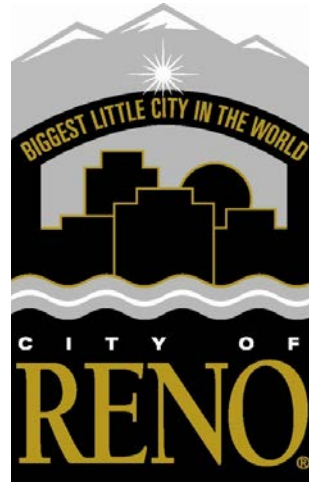
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Naomi Duerr
Oscar Delgado
Paul McKenzie
Neoma Jardon
David Bobzien

City Auditor's Office

Internal Auditor
Emily E. Kidd
Certified Internal Auditor



AUDIT REPORT

FLEET OPERATIONS

MARCH 2017

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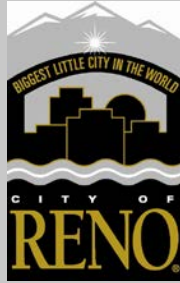
MISSION STATEMENT

To provide the City of Reno with an independent appraisal function designed to assist the Reno City Council, citizens, and City management in establishing accountability, transparency, and a culture of continuous improvement in City operations.

THE INSTITUTE OF INTERNAL AUDITORS' STANDARDS COMPLIANCE

The audit was conducted in accordance with standards of the Institute of Internal Auditors (IIA); sans Standards 1310-1 through 1321. 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.

Audit Highlights



Highlights of operational audit report on Fleet Operations issued March 2017. City of Reno Internal Audit #17-01.

Purpose of Audit

To review compliance with established City policies including but not limited to equipment and expenditures. Also, to review the effectiveness of a selection of operational processes of the City of Reno's Fleet Division.

Audit Recommendations

This audit report includes seven recommendations for Fleet Management concerning four of the five areas reviewed: minimum vehicle use review, facility use and safety, expenditures, and equipment.

In addition, two recommendations are included for the Finance Department concerning the enforcement of the City's purchasing policies and tracking purchasing compliance errors.

For more information on this or other City of Reno internal audit reports, contact Emily E. Kidd at kidde@reno.gov.

FLEET OPERATIONS

BACKGROUND

The Fleet Division is responsible for centralized management of the City's vehicular fleet with the exception of Fire Department vehicles. This audit of Fleet Operations was specifically requested by executive management in fiscal year 2016.

OBJECTIVES AND SCOPE

The audit objectives included a review of five areas: minimum vehicle use review, facility use and safety, expenditures, equipment, and petty cash controls. The audit scope encompassed July 1, 2013 – June 30, 2016.

KEY FINDINGS

- ✧ The process outlined in the Fleet Management Program Procedures Manual for the annual minimum vehicle use review and analysis was not performed by Fleet management. Without a detailed, methodical process to evaluate vehicles used minimally, an objective conclusion based on quantitative measures is not possible.
- ✧ Police firearms are unnecessarily in the possession of Fleet employees when Police vehicles are delivered to Fleet for maintenance services.
- ✧ Expenditure testing identified seven occasions where the Management Policies and Procedures for purchasing were not followed.
- ✧ Equipment testing identified six tracking and compliance errors. One of the errors is related to the use of a departmental sensitive equipment listing as required by City Policies; the requirement to maintain a sensitive equipment list applies to all City departments.

BACKGROUND

The City of Reno's Fleet Management reports administratively to the Maintenance and Operations Division of the Public Works Department. Their operations are located at the City's Corporation Yard (Corp Yard). At the start of fiscal year (FY) 2017, Fleet Management (Fleet) employed one maintenance & operations manager (Fleet manager), one office assistant II, one senior equipment service writer, one senior equipment mechanic, four equipment mechanics, two equipment service workers, and three part-time fleet maintenance shop assistants.

Fleet is responsible for centralized management of the City's vehicular fleet with the exception of Fire Department vehicles. Management functions include but are not limited to analyzing departmental fleet needs, providing safe and reliable vehicles, ensuring proper vehicle registration, and providing fueling services for the fleet. In general, departmental operations fall under two categories, ownership and maintenance and operations.

Maintenance is conducted in the Automotive Service Excellence (ASE) Blue Seal Certified shop at the Corp Yard. Certification designation requires at least 75% of the technicians that perform diagnosis and repairs are ASE certified. Some vehicle services are not performed by Fleet but are sent to outside vendors; their services include body work, glass repairs, transmission work, and painting.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Fleet Operations Audit was specially requested by executive management. The fieldwork began in fiscal year 2016 by the previous City Auditor.

Objectives

The audit objectives include:

- To determine whether Fleet Management's expenditures are reasonable, properly documented, and approved in accordance with established guidelines.
- To determine if the minimum vehicle use standards review process is reasonable, equitable, and conducted in accordance with established policies.
- To review the internal controls in place over facility and equipment use.
- To determine whether capital assets \$10,000 and greater and sensitive equipment is properly tagged, tracked, and physically accounted for.
- To review cash handling procedures and test the petty cash for fund security and compliance with established policies.

Scope

The audit scope included a review of procedures and transactions from July 1, 2013 to June 30, 2016. Fieldwork began July 1, 2016 and concluded December 20, 2016.

Methodology

The review included tests of the accounting records and other auditing procedures, as was considered necessary. The tests included, but were not necessarily limited to these areas:

- Testing expenditures for reasonableness, supporting documentation, and proper approval;
- Research criteria related to City and departmental procedures and evaluate compliance with established procedures;
- Observe the Fleet facility and interview staff;
- Examine sampled equipment for proper accountability;
- Perform an unannounced cash count of petty cash funds; and
- Evaluation of the risk of fraud, waste, and abuse relative to the audit objectives.

AUDIT RESULTS

Minimum Vehicle Use Review

Annual Minimum Vehicle Use Review and Analysis was Not Performed for Fiscal Year 2016

Process outlined in the Fleet Management Program Procedures Manual is not being adhered by Fleet management. Per inquiry with the Fleet manager, the minimum vehicle review process was not conducted in FY16 and, as of December 1, 2016, has not been initiated for FY17. Management indicated that the minimum review conducted in FY16 consisted of a spot review of vehicles for low mileage/hours when they came into the fleet shop for maintenance and that no vehicles were determined to be "minimal-use" since he joined the department at the beginning of FY16. The Fleet manager also indicated that the thresholds in the policy may not be properly set to best meet the needs of the city and an update is being considered internally at Public Works.

Without a detailed, methodical process to evaluate minimum vehicle use, the vehicles that are minimally used cannot be identified. Without identifying these vehicles, they cannot be reissued to departments in need (rather than new vehicles being purchased) nor can they be sold as surplus and removed from the maintenance cycle - both would preserve City funds. In addition, there is no indication the vehicles' minimal use metrics were reviewed with a systematic methodology. Thus, the resulting conclusions by Fleet management were not based on quantitative measures.

Fleet management is not following the procedures outlined in the *Fleet Management Program Procedures Manual*.

Management Policies and Procedures 305, Acquisition & Use of City Vehicles, Section VIII.E.2 states "Daily vehicle assignments shall be subject to the minimum vehicle use standards established by Fleet Management." Fleet's standards are outlined in the Fleet Management Program Procedures Manual. Per the manual, "All departments shall be required to report vehicle usage to Fleet Management in October of each year." The procedures also state the minimum use threshold is "5,000 miles or 165 days during the fiscal year for sedans and light trucks, and use no less than 200 hours during the fiscal year for specialized equipment. Vehicles with use below these standards shall require evaluation and re-authorization for continued use."

Recommendation:

We recommend the minimum vehicle use review process as outlined in the Fleet Policies & Procedures be updated to reflect thresholds identified by Public Works Management. Those procedures should then be followed in a timely manner to ensure an appropriate evaluation is made concerning minimum vehicle use and the resulting conclusions are based on the metrics in those evaluations.

Facility Use and Safety**Firearms are Unnecessarily in the Possession of Fleet Employees**

Per observation on August 26, 2016, noted there was a large safe with a combination lock in the Fleet manager's office. Per inquiry with the manager, Police Department vehicles often have firearms inside them when they are delivered to Fleet for maintenance. If these vehicles need to leave the Corp Yard for additional maintenance in the community, the firearms are removed from the vehicles and placed in the safe by Fleet employees.

Access to the safe is limited to eight staff as of October 21, 2016. An internal policy, Firearms Safety & Handling, adopted July 27, 2016 is in effect for the department. Per inquiry with the Fleet manager, employees with access complete a gun safety course provided by Reno Police Department staff. Noted around the safe are posted procedures that include the sections: Semi Automatic Handgun Clearing Procedures, AR15 Rifle Clearing Procedure, Shotgun Clearing Procedures, Bolt Action Rifle Clearing Procedures, 40mm Launcher Clearing Procedures, and Points of Contact.

Permitting the City's non-safety employees access to City issued firearms is an unnecessary safety risk and exposure to liability.

Recommendation:

We recommend access to City issued firearms be precluded from Fleet employees.

Expenditures Testing**Seven Expenditures Tested Were Not In Compliance With City Policies**

We reviewed 148 Fleet expenditures for proper supporting documentation, approval, reasonableness, and compliance with established purchasing procedures as documented in Management Policies and Procedures (MPP) 403, Purchasing. The following seven exceptions were noted.

1. On one occasion, the purchase was over the amount authorized for the employee. Per the City of Reno purchasing policy, MPP 403, expenditure approvals require supervisory approval based on the transaction's value. The limits are indicated on the Authorized Signature Form and maintained by Finance.

Recommendation:

We recommend employees do not approve expenditures that exceed their authorization limit. In addition, we recommend Finance issue error notifications if improper signature authorizations are submitted and obtain proper authorization prior to processing payment on such expenditures. Also, we recommend error notifications are tracked for future evaluations.

2. On four occasions, the purchase was not applied to the correct account. The expenditures noted were all pCard purchases. When a pCard statement is reviewed monthly by the department's card liaison, the individual purchases are categorized by type and assigned specific account numbers.

Recommendation:

We recommend greater care be taken when assigning accounts to expenditures during the pCard review process.

3. On two occasions, the purchase order was dated after the invoice. Purchase orders are an internal control for the purchase of products and services and are often required for organizational expenditures. When purchase orders are used for an expenditure, they should be completed prior to the actual order of the product or service.

Recommendation:

We recommend employees create a purchase order for expenditures requiring such prior to order. In addition, we recommend Finance issue error notifications if purchase orders are submitted after the purchase. Also, we recommend error notifications are tracked for future evaluations.

Note

Certain items noted in the fully-stated exceptions above require a response and action from the Finance Department. Both departmental responses are in the appendix.

Equipment Testing

Equipment Tracking Errors and Compliance Errors Noted

Audit testing included a review of a sample of twenty equipment items selected from the capital asset listing maintained by Finance and four equipment items from the IT related asset inventory list maintained by IT. We also performed two-way testing of eight equipment items observed in the field that were then traced to the appropriate listing to verify inclusion and tracking methodology. The following six exceptions were noted.

1. On one occasion, the vehicle listings did not agree for the vehicle. The Capital Asset report from Finance indicated the vehicle is assigned to Public Works, Pickup Dodge 3/4 Ton Sewer, service date 6/30/02; Fleet's equipment listing indicates the vehicle is a 2001 Dodge, Dept. 0800 Police.

Recommendation:

We recommend the correct department be identified for the vehicle and the appropriate report be updated to assign the vehicle to the proper department. In addition, the accounting associated with the vehicle should be assessed and adjusted as necessary for proper tracking.

2. On five occasions, the item was not included on the IT related asset inventory list or another equipment tracking list. Items include: large monitor, TPMS tool, a heavy duty scan tool, and two tablets.

Management Policies and Procedures 404, Capital Assets, Section VIII.A.4 states, in part, “Assets sensitive to loss will not be capitalized for financial reporting purposes, but will be tracked for internal control purposes and inventoried in accordance with the procedures set forth in this policy.” We were informed by Fleet management that a listing of assets sensitive to loss is not maintained by the department.

Management Policies and Procedures 314, IT Procurement, outlines the process for purchasing and tracking IT related assets greater than \$500. These assets also include components that interface with computer equipment that are greater than \$500 such as fleet scanning tools. It should be noted this policy became effective recently and all equipment tested were purchased prior to the policy’s effective date, July 1, 2016.

Recommendation:

We recommend the TPMS tool and tablets be communicated to IT for inclusion on the IT related asset inventory list and similar additional purchases be likewise communicated to IT. In addition, we recommend Fleet maintain a sensitive equipment listing as outlined in MPP 404 and add the remaining items identified to the listing.

NOTEWORTHY ACCOMPLISHMENTS

Purchasing Card Transactions

While the segregation of duties for Fleet purchases does not provide an ideal level of internal control over purchases made with the city pCard for the Fleet department, the mitigating controls in place create assurance of the propriety of purchases. We recognize staffing limitations may preclude a highly secure level of segregation of duties; the additional internal controls detailed below provide processes that create an acceptable level of risk concerning the propriety of purchases.

Per Management Policies & Procedures 403 VIII.A.1 (General Purchases):

Responsibility for purchase acquisitions should be separate from payment authorization and, *where possible*, from the receipt of goods. Providing adequate segregation of duties helps to ensure that no one person has complete control over a transaction, thereby protecting against unauthorized purchases. (*Emphasis added.*)

The senior equipment service writer initiates purchases for Fleet, has a high limit pCard (\$50,000 per month), and also is responsible for accepting the purchase deliveries to Fleet's service counter at the Corp Yard. Generally, these items together do not provide an adequate segregation of duties.

Per inquiry with the Fleet manager, once the items are received at the service counter the invoices are given to the administrative assistant and input into the software for tracking. During the expenditures testing, noted the pCard transaction receipts are individually reviewed and organized by account number by the administrative assistant. The examination of six pCard statements that included 116 individual transactions by Fleet did not identify any exceptions related to findings that would result from weak segregation of duties. Internal Audit recommends the procedures identified above continue as they provide another layer of controls for the pCard purchases delivered to the service counter.

Finance Department's Review of Purchase Card Transactions

Finance performs an ongoing analysis of expenditures completed with a purchasing card to identify if any vendors are receiving business from the City that would require Council approval. Because the pCard transactions are not itemized at the time of purchase, Finance has taken steps to analyze the purchases holistically for the City. Internal Audit recommends this procedure continue as it provides another layer of internal controls over accumulated purchases to vendors.

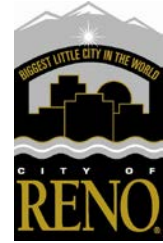
Additional Items:

Novak Report

The Novak Consulting Group recently conducted an audit of the Parks, Recreation, and Community Services and Public Works departments. Their report dated February 3, 2015 includes five recommendations specific to Fleet Management, they are:

- Begin fully funding the adopted vehicle replacement schedule.
- Shift maintenance responsibility for select Fire Department fleet to Fleet Management.
- Collect accurate wrench time data and assess the productivity and cost effectiveness of the Fleet Management Unit.
- Staff Fleet Management Unit based on demand for services, leveraging Equipment Service Workers for basic vehicle maintenance activities.
- Develop liquidation and rental plans for low use vehicles.

Internal Audit recommends management provide responses from the appropriate process owner detailing the City's resulting action for each item. If no operational changes were completed as a result of the consultant's recommendations, include a comment regarding management's action/inaction as a response to this audit report.



Internal Audit recommendations via the Fleet Operations Audit Report distributed January 13, 2017.

Minimum Vehicle Use Review

1. Annual Minimum Vehicle Use Review and Analysis was Not Performed for Fiscal Year 2016

We recommend the minimum vehicle use review process as outlined in the Fleet Policies & Procedures be updated to reflect thresholds identified by Public Works Management. Those procedures should then be followed in a timely manner to ensure an appropriate evaluation is made concerning minimum vehicle use and the resulting conclusions are based on the metrics in those evaluations.

How will compliance will be measured, monitored, and assured?

The last formal minimum vehicle use review and analysis was performed in January 2014. There has been significant turnover in user department/division heads (Community Development; Information Technology; Police; Parks, Recreation, and Community Services; Building and Safety; and Public Works Maintenance & Operations) since that time. The current Maintenance & Operations Manager in Fleet began in July 2015. In addition, the Office Assistant II, and two mechanics have been hired to replace retiring employees. As part of training for the Fleet employees, a review of past practices and policies has been conducted. Going forward, Fleet Management will provide a list of minimal use equipment to the user department heads annually and request justification for any underutilized vehicles to remain in the fleet. The process currently defined in the Fleet Management Program Procedures Manual will be updated to reflect this slightly revised procedure.

During the "Great Recession", several vehicles were analyzed due to minimum use and reassigned to user departments in lieu of purchasing new vehicles. This practice has continued, but has not been recorded formally. The Fleet Manager will produce an annual report of minimum use vehicles and reasons by the user department for keeping vehicles as well as a list of vehicles removed from the fleet. This report will be shared with the City Manager, Director of Public Works, and as an attachment to the annual vehicle buy request to City Council.

When will the measures be taken?

The list of minimal use equipment and the procedure review as mentioned above will be completed in calendar year 2017.

What will be done to avoid the issue in the future?

Fleet Management will adhere to the final revised procedure outlined in the Fleet Management Program Procedures Manual annually.

Facility Use and Safety

2. Firearms are Unnecessarily in the Possession of Fleet Employees

We recommend access to City issued firearms be precluded from Fleet employees.

How will compliance will be measured, monitored, and assured?

Fleet Management and the Director of Public Works will meet with the Reno Police Department fleet liaisons and determine whether a change in the current operation is necessary.

The current internal procedure within Fleet Management seems to be working well for operations as vehicles are able to be serviced without interruption, regardless of firearms. Employees within Fleet Management volunteered to receive training taught by the Reno Police Department Range Master. The procedure that Fleet Management adheres to was established primarily by the Reno police department range master with assistance by the maintenance & operations manager within Fleet. There doesn't seem to be any additional unnecessary safety issues of risk or liability by trained Fleet staff removing and storing weapons than if police officers were performing the same actions. Obviously, the current procedure allows for higher efficiency in servicing and maintaining vehicles.

When will the measures be taken?

This will be pending the meeting as mentioned above, and that meeting will be scheduled by the end of FY17.

What will be done to avoid the issue in the future?

Please see above.

Expenditures Testing

3. On one occasion, the purchase was over the amount authorized for the employee.

We recommend employees do not approve expenditures that exceed their authorization limit.

How will compliance will be measured, monitored, and assured?

This was a mistake by Fleet Management. The Public Works Director had already discussed this issue with management in Fleet prior to the audit and further reviewed the signing authority limits with management in all of the Public Works Maintenance and Operations Divisions.

When will the measures be taken?

This had been done before the audit was complete.

What will be done to avoid the issue in the future?

Management within Fleet is fully aware of the purchasing limits and continues to stay aware of invoices from vendors that are usually large in nature, such as fuel purchases.

4. On four occasions, the purchase was not applied to the correct account.

We recommend greater care be taken when assigning accounts to expenditures during the pCard review process.

How will compliance will be measured, monitored, and assured?

The majority of the miscoding happened within the first couple months of a new employee starting in the office assistant II position as well as the first six months of the Maintenance & Operations Manager beginning in his position. As these two individuals code and verify the code for the majority of invoices, it is understandable that there would be a few mistakes from previous administration. To be clear, the miscoding was generally an invoice that should have been charged to "Outside Services – Other" but was coded to "Supplies" or vice versa. The charges remained in the appropriate fund. As both of these employees have gained experience, purchases have been coded correctly. Any mistakes made going forward should be caught by the final signature authority.

When will the measures be taken?

We are currently in process and constantly reviewing.

What will be done to avoid the issue in the future?

Administrative staff within Fleet will review this audit and continue to put added emphasis on correctly coding expenses.

5. On two occasions, the purchase order was dated after the invoice.

We recommend employees create a purchase order for expenditures requiring such prior to order.

How will compliance will be measured, monitored, and assured?

Fleet has come across this issue several times. It sometimes happens due to rushing to get a much needed piece of equipment back into operation, and the invoice associated with the repair exceeding purchasing limits. Fleet Management had been notified of this issue by Finance prior to the audit. Since then the maintenance and operations manager of Fleet has reviewed the purchasing policy with all of Fleet staff to ensure that everyone knows the purchasing limits. Additionally, Fleet Management is reaching out to vendors when this occurs, and notifying them of our purchase order limits and having them note in their system to request a PO if the part or service needed exceeds the city purchase order policy.

When will the measures be taken?

This is already in process.

What will be done to avoid the issue in the future?

Please see above.

Equipment Testing

6. On one occasion, the vehicle listings did not agree for the vehicle. The Capital Asset report from Finance indicated the vehicle is assigned to Public Works, Pickup Dodge 3/4 Ton Sewer, service date 6/30/02; Fleet's equipment listing indicates the vehicle is a 2001 Dodge, Dept. 0800 Police.

We recommend the correct department be identified for the vehicle and the appropriate report be updated to assign the vehicle to the proper department. In addition, the accounting associated with the vehicle should be assessed and adjusted as necessary for proper tracking.

How will compliance will be measured, monitored, and assured?

Fleet Management was able to immediately identify that the vehicle was properly coded in its Fleet Management software. This finding presented the Capital Asset report with an asset department assignment that Fleet Management was unaware of. Fleet Management plans to request the Capital Asset Report and reconcile it to the up-to-date Fleet Management software.

When will the measures be taken?

Fleet Management will complete this reconciliation by the end of FY17.

What will be done to avoid the issue in the future?

Fleet Management will establish this as an annual procedure.

7. On five occasions, the item was not included on the IT related asset inventory list or another equipment tracking list. Items include: large monitor, TPMS tool, a heavy duty scan tool, and two tablets.

We recommend the tablets be communicated to IT for inclusion on the IT related asset inventory list and similar additional purchases be likewise communicated to IT. In addition, we recommend Fleet maintain a sensitive equipment listing as outlined in MPP 404 and add the remaining items identified above to the listing.

How will compliance be measured, monitored, and assured?

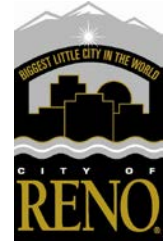
Fleet Management plans to do an inventory of what it would deem to be sensitive-to-loss assets. Once the inventory is created, we'll send it to Finance for their review to see what needs to be and what doesn't need to be included.

When will the measures be taken?

Fleet Management will establish an inventory to send to Finance by the end of FY17.

What will be done to avoid the issue in the future?

We will take an annual inventory of the Finance approved list.



Internal Audit recommendations via the Fleet Operations Audit Report distributed January 13, 2017.

Expenditure Testing

1. On one occasion, the purchase was over the amount authorized for the employee.

We recommend Finance issue error notifications if improper signature authorizations are submitted and obtain proper authorization prior to processing payment on such expenditures. In addition, we recommend error notifications are tracked for future evaluations.

The Finance Department has and will continue to notify Departments of noncompliance with submission of documents that may not comply with City policies and procedures. The process to notify Departments of non-compliance is through a “Returned Items Form” that is sent with the invoice in question and the documents to the originating individual. The Form will be maintained for statistical reporting effective February 1, 2017. The Finance Department has noted a very de minimis number of issues in regards to non-compliance.

The perceived error noted by this audit, was for an invoice of fuel purchase that had been authorized by the City Council. The Finance Department had on file a memorandum dated April 19, 2013 from the City Manager authorizing the Public Works Department to sign for fuel purchases.

On January 4, 2016, per memorandum, the Public Works Department was again authorized by the City Manager to sign for fuel purchases.

How will compliance will be measured, monitored, and assured?

The Finance Department will continue to review all invoices for proper signature authority as is the current process.

When will the measures be taken?

The Finance Department will continue to review all invoices for proper signature authority on a daily basis.

What will be done to avoid the issue in the future?

Staff will review the invoices as received into the Finance Department for compliance prior to processing of the invoice.

2. On two occasion, the purchase order was dated after the invoice.

We recommend Finance issue error notification if purchase orders are submitted after the purchase. In addition, we recommend error notifications are tracked for future evaluations.

The Finance Department has and will continue to notify Departments of noncompliance with submission of documents that may not comply with City policies and procedures. The process to notify Departments of non-compliance is through a "Returned Items Form" that is sent with the invoice in question and the documents to the originating individual. The Form will be maintained for statistical reporting effective February 1, 2017. The Finance Department has noted a very de minimis number of issues in regards to non-compliance.

How will compliance will be measured, monitored, and assured?

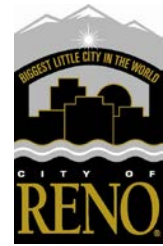
The current City policy (# 403) does not mandate that a purchase order be issued prior to invoicing. It is however, best practice, and the practice of the City to have a purchase order issued prior to ordering. The Finance Department has drafted an update of the policy that will mandate the practice.

When will the measures be taken?

Staff will review the invoices as received into the Finance Department for compliance prior to processing of the invoice.

What will be done to avoid the issue in the future?

Staff will review the invoices as received into the Finance Department for compliance prior to processing of the invoice.



Novak Core Services Review – Report Dated 02/03/15

1. Begin fully funding the adopted vehicle replacement schedule. (recommendation 30)

Vehicle replacement schedules are an industry best practice. The City of Reno has already adopted a vehicle replacement schedule; however, the schedule has been delayed in recent years. The amount of funding provided by the Motor Vehicle Fund toward the replacement of City vehicles is determined on an annual basis and, over the last five years, the City has funded an average of 30% of the plan each year. . When replacement is delayed, replacement costs accumulate as the City falls behind on its replacement plan. The following figure (omitted from this report) shows the planned versus the actual annual funding level for the replacement of City vehicles over the past five years in addition to the compounding costs of the delayed replacements.

The City should move to fully fund its adopted vehicle replacement plan annually to avoid increased maintenance costs, downtime, and potential safety issues as vehicles are kept beyond their useful life. A more uniform annual process will also be more self-sustaining as wide variations in purchases are reflected in the future as the cycle is repeated.

Management's Response:

Fleet Management prepares a replacement list annually. This list is based on replacing vehicles as outlined in Internal Service Fund Policy #610, and is further reviewed by Fleet Management. The average age of the fleet in FY17 across approximately 650 pieces of equipment is 10 years. Fleet Management agrees with the above recommendation of fully funding the adopted vehicle replacement schedule.

2. Shift maintenance responsibility for select Fire Department fleet to Fleet Management. (recommendation 31)

Maintaining firefighting apparatus and equipment requires specialized knowledge to ensure emergency response vehicles are available for emergency incidents. However, fire departments also require a fleet of transportation or passenger vehicles that do not require the same level of specialized knowledge. A total of four mechanics currently maintain the Fire Department's entire fleet of 89 vehicles. The Fire Department divides its fleet into nine categories. The total number of vehicles and the number of transportation vehicles in each category is included in the following table (omitted from this report).

The Public Works Fleet Management operation should be responsible for maintaining the Fire Department's 57 transportation vehicles. Responsibility for maintaining firefighting apparatus and specialized equipment should remain with the Fire Department's Fleet Maintenance Division. While this review did not engage the Fire Department, some potential efficiencies were identified during the review of Public Works that support this recommendation.

The industry standard for the workload of vehicle maintenance mechanics is a ratio of less than 60 pieces of equipment to one full time mechanic. For more specialized equipment, it is acceptable for the ratio to be lower. Based on the standard fleet ratio, it is recommended that two Fire Department mechanics remain in the Fire Department to maintain apparatus and the other two Fire Department mechanics transfer to the Public Works Department's Fleet Management unit. This transfer should be assessed in light of more detailed wrench time data included in Recommendation 32 below. Based on the FY 2014 labor reports, each vehicle requires approximately 3.18 hours of preventative maintenance/inspections per year and 10.39 hours of other maintenance per year. Therefore, the additional vehicles would increase the Fleet Management workload by an estimated 773.5 hours per year, or 0.57 FTE. Recommendation 33 includes a review of the fleet maintenance function's staffing levels).

Management's Response:

It's understood that this issue lies in collective bargaining and is outside of Fleet Management's influence.

3. Collect accurate wrench time data and assess the productivity and cost effectiveness of the Fleet Management Unit. (recommendation 32)

The Evaluation of Fleet Maintenance Services study completed by City staff in 2013 calculated the fully burdened labor rate of the Fleet Management unit at \$89.95 per hour. During the course of this review, the fully burdened labor rate could not be confirmed due to data limitations.

In order to calculate the fully burdened labor rate, the direct labor rate must first be calculated. The direct labor rate is the hourly salary and benefit rate for each mechanic adjusted to reflect non-productive time. It is calculated by dividing the total salary and benefit cost for each mechanic by the number of billable hours available. The number of available billable hours is calculated by subtracting leave time from the number of annual hours scheduled to work. Assuming 360 hours of leave time per mechanic per year, the direct labor rate for the four Mechanics and two Equipment Service Workers is \$54.66 per hour.

The next step in calculating the fully burdened labor rate is to combine the direct labor rate with the indirect costs associated with the operation. While all of the indirect costs of the operation are not clearly identifiable in the City's budget, it is possible to estimate this portion of the labor rate calculation. The cost of indirect personnel support (including the salary and benefit costs of the Crew Supervisor, the Equipment Service Writer, the Office Assistant, and 10% of the Division Manager) adds \$50.12 to the labor rate, increasing it to \$104.78.

A methodology for tracking or estimating other indirect costs, such as the costs of administrative support (e.g. HR and IT), facilities (e.g. utilities, facility depreciation, and maintenance), and other indirect costs, should be developed. If the Department were to assume an overhead rate of 10%, the fully burdened labor rate would be \$115.26. An overhead rate of 20% would bring the fully burdened labor rate to \$125.74.

There are other approaches to evaluating fleet maintenance operations, including productivity rates and mechanic-to-vehicle equivalent unit (VEU) ratios. Assuming average leave usage, the Equipment Mechanics and Equipment Service Workers would be expected to work approximately 1,720 hours per year. With a target of 85% productivity, mechanics would be engaged in 1,462 hours of wrench time per year. However, the work order data being recorded shows mechanics being engaged in 1,286 hours of wrench time per year. This is likely due to mechanics not properly recording wrench time. Therefore, based on the data currently in the work order system, the fleet maintenance function has a productivity rate of 75%. According to department management, the fleet maintenance function is not tracking all wrench time, so this number is likely not accurate. The mechanics receive significant administrative and operational support, including a Crew Supervisor, an Equipment Service Writer, and an Office Assistant that do not directly work on vehicles. As a result, a productivity rate of 85% should be an attainable target. Until accurate data is available, the Department should postpone filling the vacant Equipment Mechanic position.

Different classes of equipment require different levels of maintenance effort. In response, communities may use VEUs, which is a weighted measure of maintenance effort based on the composition of the fleet. For example a sedan is equivalent to one VEU, a patrol car is 2.5 VEUs, light equipment is 1.5 VEUs, and heavy equipment is 5.0 VEUs. Using this calculation, the Fleet Management unit is responsible for a total of 1,125 VEUs, and the ratio of Equipment Mechanics/Equipment Service Workers to VEUs is 1:187. While VEU information from the comparison communities was not available, a fleet maintenance benchmarking study of 14 communities found an average authorized technician to VEU ratio of 1:238. A single VEU is on average equivalent to between 10 and 15 annual maintenance labor hours. However, the City of Reno is more efficient with a single VEU being equivalent to 9.2 annual maintenance labor hours. The following table (omitted from this report) shows the VEUs maintained by the Fleet Management Unit in the City of Reno.

Once accurate wrench time data is available, the Department should evaluate the productivity of the Fleet Management Unit by calculating the fully burdened labor rate, productivity rate, and mechanic-to-VEU ratio. Given the size of the City's fleet, it is possible that a staggered fleet maintenance schedule would benefit customer departments. However, without an accurate assessment of the workload, the fleet maintenance schedule cannot be properly evaluated. In the future, the Department should consider moving toward staggered shifts so preventative maintenance can be completed after hours without taking vehicles out of service. For example, one shift could work from 6:00 am to 2:30 pm and another shift could work from 10:00 am to 6:30 pm.

Management's Response:

Fleet Management has begun to evaluate Fleet staff on billable hours in one category of employee evaluations. This in conjunction with constant updates at monthly staff meetings has put billable hours as one of Fleet's top priorities. Upon capturing full and accurate wrench time, Fleet Management will further review the fully burdened shop rate and continue to evaluate staffing levels and shift schedules. Currently the equipment mechanic that works on heavy equipment is on a staggered shift to better service the customers that utilize heavy equipment.

4. Staff Fleet Management Unit based on demand for services, leveraging Equipment Service Workers for basic vehicle maintenance activities. (recommendation 33)

Maintenance of the City's fleet is completed by four Equipment Mechanics (a fifth position is currently vacant) and two Equipment Service Workers. Fleet Management provides a robust preventative maintenance program in which three preventative maintenance services (A, B, and C) are provided at set intervals. Fleet maintenance services involve a mix of routine maintenance and repair services. Some activities do not require the specialized expertise of a mechanic. For example, Level A preventative maintenance, routine inspections, cleaning and washing vehicles, and shuttling vehicles are all activities that do not require a mechanic. Currently, approximately 25% of the work completed by the fleet maintenance function falls into this routine maintenance category.

In FY 2014, maintenance staff recorded approximately 8,500 hours of work on the City's fleet. However, as previously noted, the total hours spent on vehicle maintenance activities is not being captured in the work order system. The following table (omitted from this report) shows the labor hours recorded by type of activity.

The fleet maintenance function should be staffed based on the demand for services. Based on available wrench time data, the Equipment Service Workers complete almost all of the tasks completed by the Equipment Mechanics (the exception being sweeper and sewer equipment repairs, which are only completed by one mechanic). The minimum salary for an Equipment Service Worker is \$36,941, while the minimum salary for an Equipment Mechanic is \$54,704. The Department should leverage this lower classification of employee by staffing the Fleet Management Unit in such a way that all routine maintenance activities that do not require the expertise of an Equipment Mechanic are completed by Equipment Service Workers.

Based on the workload data available (taking into consideration the additional labor required for select Fire Department vehicles as part of Recommendation 31 and assuming 85% productivity, the fleet maintenance function requires 4.1 Equipment Mechanics/Equipment Service Worker and 1.1 basic vehicle maintenance workers. The following table (omitted from this report) shows the calculation completed to determine the recommended staffing level.

Once accurate wrench time data is collected, these calculations should be redone to determine the workload division and the staffing levels of each classification.

Management's Response:

Fleet Management currently has the two Equipment Service Workers working on routine maintenance. However, Fleet Management will direct an Equipment Mechanic to handle routine maintenance if there are too many routine maintenance items that show up in a short period of time as to provide a fast turnaround time for customers. In addition, an Equipment Mechanic may from time to time perform routine maintenance while a vehicle is in for another non-routine repair to cut back on vehicle rack time and time spent shuffling equipment as to gain efficiency.

5. Develop liquidation and rental plans for low use vehicles. (recommendation 34)

Fleet Management services 623 City vehicles. The majority of the vehicles maintained by the Fleet Management are Police and Public Works vehicles, 45% and 39% respectively. The following table (omitted from this report) shows the amount of vehicles and equipment maintained by Public Works mechanics.

When a replacement vehicle or piece of equipment is purchased, it is common for the old piece of equipment to be kept "as a spare." As a result, work crews in the City of Reno have extra equipment and are therefore able to continue work even when equipment is down. However, there are maintenance costs associated with extra equipment. Additionally, as equipment reaches the end of its useful life, maintenance costs increase until the maintenance costs are greater than the cost of purchasing a new piece of equipment. Not considering the real cost of maintenance activities hides the true cost of vehicle ownership. The Department should reduce the incentive to keep underutilized equipment.

It is important to regularly assess equipment usage and develop plans for equipment and vehicles that are not being used regularly. Liquidating low use equipment and renting specialty equipment that is not regularly used is recommended. Based on vehicle use records, the Department should justify potentially underutilized vehicles and dispose of unjustified equipment.

Management's Response:

This correlates with the first finding in the Fleet Operations Audit. Please see Management Response associated with the above audit.