

[Audit Report – County’s Fleet¹](#)

To: Tracy Surles, General Manager Public Works
David Gregor, Chief Financial Officer
Michael Hojnicky, Chief of Technical and Administrative Services
Paul Frese, Internal Services Division Manager Public Works
Dale Saunders, Acting Transportation Division Manager

Audit Conclusions and Reportable Items

In our opinion, adequate internal controls exist in all material respects over New Castle County’s fleet, except for the Areas of Particular Concern indicated below.

We have two Areas of Particular Concern which we believe warrant management’s immediate attention. These are:

- The lack of a written agreement with the financing company for how lease interest rates are calculated and the fact that no one in the County is verifying the interest rate the finance company is assessing. Although the dollar difference of the interest rate the County is being assessed versus what the County thought it was being assessed is not material, we still believe it is vital that the County have a full understanding of how the rate is to be calculated. See [Comment #5](#) on page 18.
- The lack of an effective method to map the fleet inventory on the fleet management system (FleetFocus M4) to the County’s financial system (Tier Performance), thus affecting the accuracy/confidence of the fleet information on Tier -- which is used for financial statement purposes. See [Issue #1](#) in [Comment #6](#) on page 20.

Other opportunities for improvement are included in the “[Opportunities for Improvement](#)” section of this report, beginning on page 26. We also have four [General Comments](#) beginning on page 8.

Overview – County’s Fleet

There are various areas of the County Government that are involved with aspects of the County’s fleet, the primary area being the Fleet Operations Section of the Internal Services Division in the County’s Public Works Department. Fleet Operations works with Purchasing on the specifications for new items in the fleet, inspects such items after they arrive to the County, manages the servicing (maintenance and fueling) of the County’s fleet, and provides input on replacement decisions. Fleet Operations’ operating budget

¹ The Merriam-Webster definition of “fleet” is “a group (as of ships, planes, or trucks) operated under unified control.” The “fleet” referred to in this audit is County vehicles and equipment that require periodic maintenance to be performed by the Fleet Operations area of the Public Works Department.

for Fiscal Year (FY) 2019 is approximately \$7.2 million; this entire amount is cross charged to the departments having the applicable vehicles and equipment. The FY 2019 capital budgets for the purchase of vehicles and equipment are approximately \$5.1 million for the General Fund and \$2.1 million for the Sewer Fund; these budgets reflect the projected lease payments for existing and new items in these funds.

Other areas of the County Government that are involved in aspects of the County's fleet are:

- Purchasing is responsible for procuring County items in the fleet either by issuing a Request for Proposal or by "piggybacking" off another governmental entity's contract. Since most of the items in the County's fleet are Leased with the Option to Purchase, Purchasing is responsible for coordinating the review and signing of the lease paperwork. Purchasing also manages the disposition of items in the fleet by auctioning items on GovDeals.
- The Office of Finance is responsible for setting up leases on the Tier Performance System (the County's financial system), for making payments on the leases and for removing assets no longer in use from the Tier Performance System.
- The Fiscal Unit in the Public Works Department is responsible for processing invoices (e.g., fuel vendor) for fleet-related items. The Fiscal Unit also is involved with the operating budget for Fleet Operations and the capital budget for the purchase of vehicles and equipment in the General and Sewer Funds.
- The Internal Services Division Manager is involved with the decisions on acquisition and replacement of General Fund items in the fleet. He works closely with the department managers in these decisions.
- Risk Management is responsible for insurance claims involving the County's fleet.

Fleet Operations uses a third-party system, FleetFocus M4, for the management of the various aspects of the fleet.² Fleet Operations is now in the process of converting to FleetFocus M5. Fleet Operations also uses a third-party vendor for the ordering and management of the parts inventory.

The County's fleet is primarily comprised of passenger vehicles and pieces of "heavy" sewer and turf equipment. Table 1 gives the distribution by department.

² Information on vehicles and equipment is also maintained on the County's financial System, Tier Performance. This information is not as detailed as that on M4.

Table 1: Vehicle/Equipment by Department

| Department | Equipment Count | Vehicle Count | Total |
|--------------------|-----------------|---------------|-------------|
| Executive Office | | 2 | 2 |
| Administration | | 14 | 14 |
| Public Works | 703 | 436 | 1139 |
| Community Services | 7 | 22 | 29 |
| Land Use | | 34 | 34 |
| Public Safety | 72 | 588 | 660 |
| Sheriff's Office | | 10 | 10 |
| Total | 782 | 1106 | 1888 |

* As of 7/6/2018

Note: In distinguishing between vehicles and equipment for our analysis, units with license numbers have been classified as vehicles and the rest as equipment.

Fleet Operations services and repairs most vehicles and equipment at its central location (Churchmans Road) by operating two shifts from 7:00 a.m. to 11:00 p.m., Monday through Friday. Table 2 gives the maintenance and repair work performed by reason in FY 2018.

Table 2: Work Order Analysis by Reason

| Reason for Repair | Count of Jobs | % of Total |
|--------------------------|---------------|-------------|
| Break Down | 216 | 2% |
| Commercial Work | 203 | 1% |
| Driver Report | 884 | 6% |
| Normal Wear | 7996 | 58% |
| Preventative Maintenance | 4143 | 30% |
| Road Service | 8 | 0% |
| New Vehicle Prep | 156 | 1% |
| Warranty | 217 | 2% |
| TOTAL | 13823 | 100% |

Fleet Operations also manages the fueling of County vehicles and equipment. It manages fueling at its main garage and five outer bases, manages the fuel credit cards for the Southern Patrol and EMS, and maintains a fuel truck for emergency fuelings and heavy equipment being used in the field. In FY 2018, the County spent approximately \$1.3 million on gasoline and \$237,000 on diesel.

Audit Objectives, Methodology and Scope

This audit was a “performance audit” of New Castle County’s fleet management processes, including procurement, maintenance, fueling and disposal. Performance audits, as defined by Generally Accepted Governmental Auditing Standards, are audits that provide findings and conclusions based on an evaluation of sufficient, appropriate evidence against criteria. The overall performance audit objectives for this audit were:

- Internal Control: An assessment of the County’s system of internal control over fleet management that is designed to provide reasonable assurance of achieving efficient and effective operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.
- Compliance: An assessment of the County’s compliance with criteria, related to fleet management, established by provisions of laws, formal policies and procedures, and other requirements.
- Program effectiveness, economy, and efficiency: An assessment of the extent to which the County is achieving its goals and objectives related to fleet management processes.

Our performance audit, and its scope and methodology, encompassed the following:

1. Lease-Purchase of Vehicles and Equipment

- From the Tier Performance System, selected a sample of leases posted to Tier in FY 2018. For each lease,
 - Determined whether the vehicles/equipment were procured through a County RFP or via “piggybacking” off another governmental entity’s contract, and that the transaction was handled in accordance with Purchasing’s Policies & Procedures.
 - Determined whether interest rate agreed with how rate is to be determined per agreement with financing company.
 - Discussed with Fleet Operations the reasoning for the decision to purchase the vehicles/equipment.
- Analyzed utilization and replacement of vehicles to determine if any longer-term efficiencies can be realized. (Note: This did not include vehicles in the Sewer Fund.)

2. Parts

- Selected a sample of work orders in M4 System and examined for timely approval of supervisor (signifying that supervisor agrees with parts used for work order).
- Using the report of parts reconciliations for the time period covered by a recent parts invoice from the vendor:
 - Agreed total amount per report to parts invoice and traced amount to general ledger.
 - Ensured invoice for the flat fee portion of the vendor contract was 1/12 of the contract price. Traced amount to general ledger.

- Reviewed sample of parts purchased from vendor and compared prices to another source to determine if, for the most part, the County is getting the best prices.
- Using an M4 System report of all work orders for a recent one-month period, used Audit software package to evaluate whether the County is paying the parts vendor similar prices for the same parts.

3. Maintenance

Used Forecaster report from M4 System to ascertain how many units had maintenance due dates prior to 2018. Selected a sample of such items and evaluated explanations for why work had not been done. Also, discussed with management the overall controls over the timely scheduling of preventative maintenance.

4. Fuel Management

- Selected a sample of fuel invoices, relevant OPIS (Oil Price Information Service) reports and Bills of Lading, and examined them for accuracy of fuel price (based on OPIS and the fuel contract) and the quantity delivered.
- Used Audit software package to compare fuel transactions reported in the two fleet management systems – Fuelmaster and FleetFocus M4. Also, performed site visits to evaluate implementation of controls over fueling.
- Used Audit software package to analyze Fuelman card statements for fueling locations and any anomalies in meter readings.
- Reviewed the inventory control spreadsheet for the main base.

5. Inventory Management

- Analyzed fleet distribution by department and type of vehicle/equipment.
- Ascertained whether the fleet inventory on Tier matches that on M4. Also, determined whether there is a one-to-one correspondence between Asset Tag Numbers (Tier) and Unit Numbers (M4).
- Selected a sample of vehicles/equipment to ensure their existence.
- Selected a sample of vehicles/equipment disposed through GovDeals and determined whether the transaction was properly recorded on M4 and Tier.

6. Other

- Conversion from M4 to M5 System: Reviewed Project Plan to ensure conversion is being handled in accordance with IS's policies & procedures and with best practices.
- Budgeting: Evaluated methodology used for budgeting for fuel and vehicles.

- Take-Home Vehicles: Tested for compliance with Personnel Policy 2.01 regarding taxation of fringe benefits (i.e., commute to and from work). Also, reviewed for reasonableness the assignment of vehicles to various departments/OCAs.
- Reviewed adequacy of written policies and procedures.

In general, our testing involves audit sampling. We evaluate the results of the tests and use professional judgment, based on the number of exceptions and/or the materiality of such exceptions, whether to include exceptions in the audit report. In some cases, we perform additional testing to help us obtain additional audit evidence in making such evaluation and determination.

If our audit work reveals an item which we believe is significant in the context of one or more audit objectives, we include this in an “Areas of Particular Concern” section of the audit report. An Area of Particular Concern is an item (such as a deficiency in internal control or noncompliance with a particular law) which we believe has, or could have, a significant adverse impact upon the County’s ability to accomplish a major objective and, therefore, warrants management’s immediate attention. All other reportable items are included in an “Opportunities for Improvement” section of the audit report.

Because the scope of an audit does not allow us to examine every single function and transaction performed by an area, an audit would not necessarily disclose all matters that might be reportable items.

Generally Accepted Government Auditing Standards

Except as discussed in the following paragraph, we conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) promulgated by the United States General Accounting Office. These 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.

We have not met the requirement of Section 3.96 of GAGAS that requires an audit organization performing audits in accordance with GAGAS to have an external review every three years. In calendar year 2019, we plan to have the Association of Local Government Auditors perform a peer review of the County Auditor’s Office.

Views of Responsible Officials

Management’s responses are included after each of the report’s recommendations.

Appreciation of Cooperation

We sincerely appreciate the cooperation of Fleet Operations and all other areas involved with the operation of the County's fleet in their willingness to work together with us in determining constructive improvements to the fleet management processes.

Cc:

Matthew Meyer, County Executive

Vanessa Phillips, Chief Administrative Officer

Aundrea Almond, Chief of Staff

Brian Boyle, Policy Director

Jason Miller, Communications Director

Cathy DiCristofaro, Public Works Department Finance Officer

Ruth Kowalski, Chief Purchasing Agent

Clifton Crawford, Purchasing Agent

Karen Smalls, Executive Assistant IV

Stephanie Tickle, Insurance and Loss Control Manager & Acting Chief Human Resources Officer

Nellie Hill, Clerk of Council

New Castle County Council Members

New Castle County Audit Committee Members

GENERAL COMMENTS – RESPONSE NOT REQUIRED

1. Fleet Operations' Initiatives.

We'd like to highlight a few Fleet Operations' initiatives:

- The Transportation Division Manager retired during the audit and the Equipment Coordinator has been “green carded” as the Acting Transportation Division Manager. In his new role, the Acting Transportation Division Manager is taking a close look at the practices and responsibilities of Fleet Operations within the County Government. During the audit, we found both him and the Internal Services Division Manager to be very receptive to new thoughts and ideas and very interested/motivated to make improvements deemed necessary. We believe they are setting a strong “tone at the top” in their leadership of Fleet Operations.

Overall, everyone in Fleet Operations and the other areas we dealt with was cooperative, helpful, and conscientious about his/her job.

- Fleet Operations is converting from FleetFocus M4 to FleetFocus M5. M4 is outdated and minimally supported by the vendor, and M5 has features which will enhance Fleet Operations' efficiency and effectiveness. Information Systems has assigned a Project Manager who is leading the Project Team for the County. The Project Team is working closely with the vendor's Project Manager to ensure a successful conversion. The Acting Transportation Division Manager began his new role around the same time that Fleet Operations began the Business Process Assessment for the conversion; thus, he brings a fresh perspective to the Assessment.
- Three of the M5 modules which are being purchased as part of the conversion will provide for more transparency and greater analysis of the overall operation of the County's fleet. These modules are:
 - Operational Dashboards: This module can be used to alert management to a condition that requires some action to correct or manage.
 - Ad-Hoc Reporting: This module allows users to easily develop custom reports.
 - Performance Measures & Monitors: This module allows the user to track and monitor the relative performance of the Fleet Operations area.

Recent discussions with the Acting Transportation Division Manager and Acting Equipment Coordinator indicate that Fleet Operations plans on taking advantage of these modules to improve the efficiency and effectiveness of the area. Fleet Operations also plans on making Fleet Operations a more paperless environment by taking advantage of the capability of being able to scan and attach documents to M5 vehicle records.

- Fleet Operations has made infrastructure changes to enhance security and to reduce distractions to Fleet personnel. The layout of the garage had not been conducive to minimizing the likelihood of

Fleet Operations' customers interacting with garage and office personnel. This negatively impacted security as a customer in the garage could have been injured by a falling object or other means, or a mechanic could have been injured by being distracted from his/her duties. Also, because the Data Technicians are housed so close to the garage, customers could have distracted the technicians from their jobs, causing inefficiencies.

A response to this comment is not necessary.

2. Consultant's Study on Fleet Management and Funding Practices.

Towards the end of our audit, we were informed that the County has engaged a consultant to "perform a study of the County's fleet management and funding practices with the goal of identifying ways to improve service and save money."³ The proposal identifies three areas to be studied:

- **Fleet Financial Planning:** The consultant "will develop a pro-forma fleet funding model for New Castle County that will consider projected fleet funding needs over a 10-year period. The fleet funding model will incorporate important variables such as: magnitude of cash funding vs. borrowing; timing of borrowing; term of borrowing; and allocating the annual costs of fleet across various departments." Please note that our audit report does include a comment dealing with fleet funding. See Comment #5 dealing with lease interest rates, page 18.

Also, we know that the decision was made several years ago to enter into lease-purchases of vehicles rather than paying the full cost up front or utilizing some other financing mechanism. At the beginning of the audit, we tried to obtain more information from the Office of Finance on how the decision to lease was made, including the determination of the length of the lease term; however, apparently no one currently employed by Finance was involved with the decision and we were unable to obtain any information from Finance on this. Therefore, we support the consultant studying how the County funds its fleet.

- **Fleet Life Cycle Management:** The consultant "will assess the County's current practices regarding life cycle and replacement planning ... and assess the degree to which current fleet replacement practices are in line with industry practices and/or the special operational needs of the County's using departments." This will include, among other things, looking at the annual utilization of vehicles. Please note that our audit included a review of utilization and replacement. In Comment #3 on page 11 and comment #7 on page 26, we recommend the development of formal utilization and replacement policies.
- **Other Cost Saving Strategies:** The consultant "will list other areas where the County might be able to capture cost savings or implement service improvements (including a discussion of UBER for Business)." In our research for this audit, we did note that there are jurisdictions that outsource

³ August 31, 2018 document titled "Price Proposal for Fleet Management Tasks."

aspects of fleet operations. However, our audit did not include any analysis of whether outsourcing certain aspects of fleet operations might be cost beneficial to the County. Please note that the County does outsource the management of its parts inventory.

A response to this comment is not necessary.

GENERAL COMMENTS – RESPONSE REQUIRED

3. Develop written policies and procedures for key areas.

Background Information on Internal Control

The term “Internal Controls” is used by organizations to describe a system of policies and procedures established by management to enhance the likelihood of achieving the organization’s objectives. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission has published a recognized framework for designing, implementing, and conducting internal control and for assessing the effectiveness of internal control. “Internal Control – Integrated Framework” defines internal control as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.”⁴

Under the COSO framework of internal controls, there are five interrelated components that are applicable to all organizations, regardless of size or type. These five components are aimed at achieving one or more of the objectives relating to operations, reporting, and compliance. A brief description of the components is listed below.

Five Components of Internal Control



⁴ Written by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Please note that this framework is incorporated into “Standards for Internal Control in the Federal Government.” These Standards have been adopted by various state and local governments. The New Castle County Auditor’s Office supports the COSO report and the Standards.

The idea is that Management should build control activities into its business processes and into the employees' day-to-day activities through policies that spell out what is expected and procedures that detail how these actions should be carried out.⁵ Written policies and procedures are also helpful to:

- Ensure employees fully understand their roles and responsibilities.
- Ensure consistency in the performance of management's directives.
- Serve as a training tool for new employees or to existing employees performing new job functions.

Comment

One of the Examples of Work in the job description for the Transportation Division Manager is "Develops and implements operational procedures."

During our audit, we analyzed the system of internal controls over the County's fleet, looking at the five different components. As we state in our report Opinion (page 1), we believe Fleet Operations' internal controls are adequate in all material respects except for a couple of areas. However, we do believe that Fleet Operations should develop written policies and procedures for its key business processes such as:

- Acquisition of vehicles/equipment: Fleet Operations has an unwritten policy which looks at several key elements (e.g., 8 years / 80,000 miles, cost of repairs is not economical given the value of the vehicle) and the Public Works Finance Officer has a draft written policy which apparently was started several years ago but not completed.⁶ See Comment #7 on page 26.
- Vehicle Utilization: Our research determined there are jurisdictions that have formal policies regarding utilization, e.g., a requirement for departments to request and justify exemptions for low-use vehicles and to obtain management approval for exemptions. See Comment #7 on page 26.
- Preventative Maintenance: Although there is a written policy on Public Works' employees' responsibilities regarding preventative maintenance, we have recommended (in Comment #8 on page 29) the development of a County-wide policy for assigned vehicles, including employees' responsibilities regarding preventative maintenance. We also believe Fleet Operations should document its unwritten policy of when each category of vehicle/equipment is to be scheduled for preventative maintenance.
- Parts: Although a third-party vendor is responsible for the ordering of parts, Fleet Operations manages the relationship and performs various checks to determine the County is only being charged for parts actually utilized.
- Fuel Ordering, Usage, and Monitoring: The Data Technician responsible for most aspects of fuel management is very conscientious about her job responsibilities. However, we are concerned that there are many details involved with her job that no one else in Fleet Operations is intimately familiar

⁵ Taken from COSO Internal Control Certificate Participant Manual pages 4-25.

⁶ Public Works engaged a consultant approximately 10 years ago to analyze the Fleet Operations area. One of its recommendations was to have a formal replacement policy.

with. Written policies and procedures would be helpful for when someone else may be called upon to do her job.

- Use of Fuelman cards (soon to be Trip cards): Certain County employees (Police officers in the southern New Castle County patrol and EMS personnel) are assigned Fuelman cards which are basically credit cards used to purchase fuel by those employees who find it inconvenient to purchase fuel at the main base (i.e., Churchman’s Road location). The policy should cover the items the card cannot be used for and the general requirement that cards should not be used for fuel purchases close to the main base.

It should be noted that the Public Works Department (of which Fleet Operations is a part) does have certain written policies regarding fleet:

- 2016 policy on operation of County vehicles and equipment by Public Works’ employees.
- 2012 policy on pool car reservations for vehicles in Public Works’ motor pool.
- 2006 policy on reporting procedures for accidents involving Public Works’ vehicles. (However, we believe the policy should include posting accident information to the M5 system.)
- 2010 policy on preventative maintenance for County vehicles and equipment assigned to Public Works.
- 2017 policy on “green-carding” within Fleet Operations.

As part of this audit, we researched fleet policies & procedures manuals in other governmental jurisdictions. For example, we found that the States of Delaware, Maryland, and Pennsylvania each have a comprehensive manual covering all aspects of managing a fleet. We have shared the links to these manuals with the Acting Transportation Division Manager.

We believe that now is an opportune time to develop written policies and procedures because:

- The Transportation Division Manager recently retired and the Acting Manager is now taking a close look at all of Fleet Operations’ processes.
- Fleet Operations is in the process of converting from the FleetFocus M4 system to FleetFocus M5. As such, the FleetFocus vendor is now working with the Fleet Operations project team on a Business Process Assessment of Fleet Operations’ business processes “to identify opportunities to engineer those processes to take full advantage of the functionality and capabilities of the FleetFocus application.” Since the Project Team will be analyzing all business processes, now would be a good time to formally document them.

Recommendation – Fleet Operations

We recommend that Fleet Operations develop written policies and procedures for all key aspects of its operations.

Management's Response – Fleet Operations

- A. Vehicle Utilization: Fleet Operations agrees to review the utilization policies of other jurisdictions to see if we can incorporate best practices into a County-wide policy.
Estimated time for completion – Reviews of other policies will be completed in (3) three months.
- B. Preventative Maintenance schedule: Fleet Operations will work with HR and Risk Management to develop a County-wide policy.
Estimated time for completion – Draft will be completed for review in (3) three months.
- C. Parts Vendor – Fleet Operations will document the reconciliation process.
Estimated time for completion – (2) two months for final document.
- D. Fuel ordering, usage and monitoring: Cross training of all Fleet Operations Data Techs is already underway and will be ongoing.
- E. Use of Fuelman Cards: The system administrator (Acting Transportation Division Manager) can systematically grant access to specific, fuel-only-types of purchases. Any purchases not allowed will be declined at the point of sale. Fleet Operations doesn't feel a formal policy is necessary at this time.
- F. Vehicle replacement policy – Fleet will work with the Public Works Finance Manager to consider formalizing the replacement process.

4. Ensure there is an area, or areas, responsible for ensuring the County and the financing company are in compliance with all terms of the agreement and that all necessary actions are taken by the County in response to various situations.

Comment

The Purchasing Division of the Administrative Services Department is currently responsible for coordinating the review and signing of lease documents for each lease executed by the County for the financing of fleet assets. The Office of Law reviews each set of lease documents and, after its review, the Chief of Technology & Administrative Services signs the documents. As noted earlier in this report, there are other areas (such as Finance) involved in other aspects of the lease agreements; however, our audit revealed that there are certain key responsibilities that are not being performed by any area or are not being performed adequately.

These responsibilities are:

- Lack of a written agreement with the financing company on how the interest rate is to be calculated and no area in the County verifying that the County is being charged the correct rate for each individual lease. See Comment #5 on page 18. (Note: This was corrected during the course of the audit by implementing Bid 19C-191, a new County contract.)

- Paragraph 1 of the lease agreement states “Lessee agrees to accept the equipment when delivered, installed and operating to manufacturer’s specifications and to execute the Acceptance Certificate ... Lessee’s execution of the Acceptance Certificate shall conclusively establish that the Equipment covered thereby is acceptable to Lessee for all purposes of this Agreement ...” In the leases we reviewed, the County had executed the Acceptance Certificate at the time of the signing of the lease, which was before the vehicles had been received. We were informed that the financing company is not actually paying the vendor until the vehicles have been received and examined by Fleet Operations; however, if a particular vehicle did not meet specifications, theoretically the financing company could assert that the County already accepted it. (Note: Purchasing informed us that Acceptance Certificates are now not being signed until the vehicles have been received and inspected.)
- During the audit, we became aware that at least one newly leased vehicle with pending lease payments had been wrecked in the course of duty. When we looked up the vehicle on the fleet management system and the financial system, we found that it was still listed as active and available on both systems.

Paragraph 8 of the lease agreement states:

“8. Lessee’s Risk of Loss or Damage: Lessee agrees to bear all risk of loss, damage, destruction or theft of the Equipment ... Lessee must give TDEF prompt notice of (1) the loss, theft or destruction of any part of the Equipment, (2) any damage to the Equipment exceeding \$500 ...”

We were unable to ascertain whether the County had communicated the loss of this vehicle to the lessor, or who the designated person would be for such communication. Since Risk Management receives the Supervisor’s Investigation Report (SIR) from the Departments,⁷ the Risk Manager believes (going forward) that it would be appropriate for Risk Management to inform Purchasing of any loss or damage of vehicles. Purchasing, if the vehicle has been leased, could then notify the lessor of the loss or damage.

As of October 2018, even though this vehicle had been “totaled” in May 2018, neither the Office of Finance nor Purchasing had been made aware of it. Apparently, neither Finance nor Purchasing has ever been faced with a situation where a leased asset has been destroyed before all lease payments have been completed; thus, there is no policy for how a situation like this should be handled. From Finance’s standpoint, they need to record an accounting entry to remove the asset from the books and to record a loss. Also, depending upon the County’s discussion with the lessor per Paragraph 8 of the lease agreement, the Office of Finance may be responsible for immediately paying to the lessor the remaining balance of the lease attributable to the asset.

⁷ Departments are required to file an SIR with Risk Management when there is damage to a County asset such as an automobile.

- Risk Management uses the Time Matters system for handling insurance claims, where claims are stored by operator instead of by unit; hence, it's not possible to generate a report of all open fleet claims from Time Matters. Therefore, such claims are maintained in an Excel spreadsheet, which Risk Management calls their "Subrogation Register." With the conversion to the M5 system, Fleet Operations will get access to M5's Accident Management module. This will give Fleet Operations the ability to store insurance claim information such as claim number, claim status, estimated repair amount, write-off amount and subrogation amount. By giving Risk Management access to M5's Accident Management module, this would enable Risk Management to generate reports on accident claims, etc. for fleet vehicles, something it's not able to currently do from Time Matters.

Recommendations – Purchasing, Risk Management, Fleet Operations

We held a meeting with Fleet Operations, Finance, and Purchasing on January 4, 2019. At this meeting, it was decided:

- Purchasing will verify the lease interest rate for each individual lease.
- Purchasing will only have the Chief of Technology & Administrative Services sign an Acceptance Certificate when the fleet item has been received and inspected.
- Risk Management will inform Purchasing of any loss or damage to fleet items. Purchasing, if the item has been leased, will then notify the lessor of the loss or damage. Purchasing will inform Finance which will then record an accounting entry to remove the asset from the books and to record a loss.
- Purchasing will notify Finance if the lease balance attributable to the "totaled" asset needs to be paid to the lessor (and the lease payment schedule "reworked" if the lease encompassed more than one asset).

We recommend:

- Purchasing and Risk Management establish procedures to comply with the decisions (regarding responsibilities) made in the January 4, 2019 meeting.
- Fleet Operations and Risk Management (RM) discuss the possibility of RM utilizing the Accident Management module in M5 to keep track of the status of various accident claims. [Note: RM provides the information on accidents to the County's Third-Party Administrator (TPA) for automobile insurance claims, and the TPA attempts to recover losses from accidents where the County is not at fault.]

Management's Response –

Fleet Operations

- A. Fleet Operations will work with Risk Management to collectively utilize the Accident Management Module in M5 to keep accurate records of the status for various accident claims. Estimated time for completion will be post "Go-live" for M5, which is estimated to be mid-to-end of April.

- B. Fleet Operations will utilize the appropriate fields in M5 to correctly identify and label vehicles that have been “totaled”. Information will be provided to Risk Management upon request. This will occur post “Go-live” for M5.

Purchasing

- Purchasing agrees that we will verify the lease interest rate for each individual lease.
- Purchasing agrees that we will only have the Chief of Technology & Administrative Services sign an Acceptance Certificate when the fleet item has been received and inspected.
- Purchasing agrees that Risk Management should inform Purchasing of any loss or damage to fleet items. Purchasing, if the item has been leased, will then notify the lessor of the loss or damage. Purchasing will inform Finance which will then record an accounting entry to remove the asset from the books and to record a loss.
- Purchasing agrees that they will notify Finance if the lease balance attributable to the “totaled” asset needs to be paid to the lessor (and the lease payment schedule “reworked” if the lease encompassed more than one asset).
- Purchasing agrees to follow procedures established by Risk Management to comply with the decisions (regarding responsibilities) made in the January 4, 2019 meeting.

Risk Management

Risk Management will advise Purchasing of any and all reports of vehicle damage. Risk Management will develop a related SOP.

AREAS OF PARTICULAR CONCERN

AGREEMENT WITH FINANCE COMPANY FOR THE LEASING OF FLEET ASSETS

5. Ensure agreement with vendor for the lease-purchase of County fleet assets is clear on the method used to calculate the interest rate. Assign an individual the responsibility for verifying the interest rate for each lease.

Comment

The County has been entering into lease-purchase agreements with TD Equipment Financing (TDEF) for the procurement of most of its vehicles / large equipment. The County's outstanding capital lease balance was approximately \$15 million at June 30, 2018.

Our testing of a sample of five leases executed by the County during Fiscal Year 2018 revealed the following:

- The Purchasing Division initially informed us that the County “piggybacks” off a Master Municipal Lease Purchase Agreement (dated October 2, 2015, with amendments) between the State of Delaware and TDEF. However, in our testing of a sample of leases, we discovered that the County typically receives a slightly higher interest rate than that granted to State leases and that the County is not actually piggybacking off the Master Municipal Lease Purchase Agreement. TDEF informed us that the State committed to borrowing \$50 million from TDEF and that is why the State is receiving a better rate. For the five leases in our sample, the differences between the rate the County received and what would have been received if operating under the State contract are as follows (information provided by TDEF):
 - .018% higher (2.048% vs. 2.03%)
 - .06% higher (2.59% vs. 2.53%)
 - .04% lower (1.98% vs. 2.02%)
 - .009% higher (2.97% vs. 2.961%)
 - .09% higher (3.10% vs. 3.01%)

Obviously, these differences are small and are not material in terms of dollars. For example, the second lease above was for \$1,375,820 for 36 months. The difference in interest paid over the 36 months at a 2.59% rate versus a 2.53% rate is only \$1,304. Please note that we don't know the frequency in which the County's rate would be lower than the State's but were informed by TDEF that it does happen.

Per an email sent by TDEF to the County's Purchasing Division on September 19, 2018,

“Currently, we price the leases for new leases against TDEF's like-term, open (no prepayment penalty) cost of funds. Our structure has always been, like-term cost of funds + 75 basis points then reduced by the bank's corporate tax rate. As of today, TDEF's 5/5⁸ open cost of funds is 3.225%. We would add .75 to that giving us a taxable rate of 3.975%. Because we are offering tax exempt pricing, we then reduce the rate to NCC by our current corporate tax rate (79% of the taxable rate). The tax-exempt rate on a 5/5 open lease for NCC is 3.14% as of 9/18/18.

The State of Delaware indexes their lease to like-term swaps. The Federal Reserve website that was originally used was deactivated. The rate above would equate to a 5-year swap of 3.018 (9/17/18) plus .956 basis points, reduced by the corporate tax rate (79%) giving a tax-exempt rate of 3.14%.”

Please note that the County apparently does not have anything in writing documenting that this is how the County and TDEF agreed the interest rate would be calculated. Therefore, in our audit testing, we were unable to verify the interest rates for the leases selected.

We don't fully understand TDEF's reasoning for why it has not been allowing the County to “piggyback” off the State Master Municipal Lease Purchase Agreement. However, as a result of this audit, the Purchasing Division further examined the State agreement and determined that, for the County to be “piggybacking” off it, the County should be obtaining approval from the State for each lease it enters into.⁹ It should be noted that TDEF concurs with this determination.

As a result, the County has decided to issue its own Request for Proposal (RFP) for a leasing vendor(s).

- No one from the County has been verifying that the lease interest rate assessed to the County is in accordance with the State's agreement or any other written or oral agreement between TDEF and the County. However, at a January 4, 2019 meeting we held with Purchasing, Finance, and Fleet Operations, the decision was made to have Purchasing verify the rate on each individual lease.

Recommendations – Purchasing

We recommend the following:

- In negotiating the contract with the new vendor(s), Purchasing and the Office of Law ensure the method in which the interest rate is calculated is clear and enables the County to independently calculate the rate.
- Purchasing establish procedures to verify the interest rate on each individual lease, and to document this verification. Also, see Comment #4 on page 14.

⁸ 5-year loan, 5-year amortization.

⁹ This is apparently based upon Section 7 of the State contract which states “Prior to executing a Schedule funded by one of the contracted vendors, each requesting state agency ... must make an informal application to the Office of Management and Budget ...”

Management's Response – Purchasing

- Purchasing has implemented Bid 19C-191, Municipal Lease Agreement, in which the method the interest rate is calculated is clear and enables the County to independently calculate the rate.
- Within Bid 19C-191, the leasing company has provided a methodology to calculate and verify the interest rate being charged. Therefore, Purchasing has established procedures to verify the interest rate on each individual lease, and to document this verification.

FIXED ASSET MANAGEMENT

6. **Ensure accuracy of fleet information on County's financial system by providing a means of mapping the data between the financial system and the fleet management system. Ensure all fleet assets have Asset Tag Numbers affixed before being put to use, and incorporate in the new version of the fleet system a field reflecting the item's Asset Tag Number. Record all possible fleet asset outcomes on the fleet management system.**

Comment

Fixed Asset Policy

The Office of Finance Fixed Asset Policy (revised 2008), titled "New Castle County Fixed Asset Policy and Procedures", states "The Office of Finance, through its fixed asset management function, is responsible for the establishment and compliance of fixed asset accounting procedures ... Precise and timely recording of fixed assets is of extreme importance in the production of a viable and accurate system."

To comply with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) Statement No. 34, all financial and classification data for capitalized and inventoried assets is recorded and maintained on the County's Tier Performance ("Tier") system.

The Fixed Asset Policy also states "The Office of Finance will coordinate with each department an annual inventory in order to maintain and track their fixed assets. This inventory process will be performed by a contracted agency, and the property custodian will observe the inventory for accuracy and completion. This process will assure compliance with GASB Statement No. 34 ... This inventory process is utilized to account for fixed assets, to identify obsolete fixed assets, to assure fixed asset bar-code tags are affixed, and to determine the condition of the fixed assets. The Office of Finance, through its fixed asset management function, will review the completed inventory listing and ... properly adjust these fixed assets in Tier." ¹⁰

¹⁰ Recent discussion with the Office of Finance indicates that this inventory is no longer performed annually. The last time such an inventory was performed was in Fiscal Year 2015 and such inventory did not include the fleet.

Issues

Our audit revealed three issues regarding fleet asset management:

1. Mapping between the financial and fleet management systems:

The Office of Finance uses the “fixed asset bar-code tag” (or “Asset Tag Number”) for maintaining and tracking the County’s fixed assets on Tier. On the other hand, Fleet Operations has its own fleet management system, M4, and identifies fleet vehicles and equipment by “Unit Numbers.”

During this audit, we learned that Fleet Operations does not record an item’s Asset Tag Number in M4, while Finance has only recently started recording the Unit Number in Tier (in a descriptive field which cannot be used for reporting). Therefore, there are assets on Tier which can’t be matched to M4 by either Asset Tag Number or Unit Number. As a result, when fleet units are sold or otherwise disposed of, assets without known Unit Numbers would not get taken off the County’s financial records. Fleet Operations informed us that they believe M4’s information is the more accurate of the two systems.

We tried to identify the magnitude of this incomplete-mapping issue by using our Audit software package to match the list of assets on Tier with the list of assets on M4. When we tried to match the active Unit Numbers with the Asset Tag Numbers on the basis of Vehicle Identification Numbers (VIN) / Equipment Serial Numbers, we were unable to match almost 39% of the M4 records to Tier. We then analyzed to see if most of the assets without matches were older assets. Results of our analysis are given in Table 3.

Table 3: Matching Asset Tag Numbers to Unit Numbers

| Model Year | Asset Tag Numbers Not Found |
|-------------------|------------------------------------|
| Prior to 2014 | 487 |
| 2014 | 29 |
| 2015 | 72 |
| 2016 | 118 |
| 2017 | 15 |
| 2018 | 14 |
| Total | 735 |

Further analysis of the missing Asset Tag Numbers from 2016 revealed that for 79 of the 2016 (model year) Chevy Tahoes, the incorrect VIN had been recorded on Tier based on incomplete information provided by Fleet Operations.

Generally, when an entity has a subsidiary system (in this case, M4) to maintain the detailed records of the entity's financial assets (in this case, the detailed information on individual vehicles and equipment), and a general ledger to reflect summary information for the entity's financial statements, it is typical to perform a reconciliation of the data between the two systems. If there are differences, then there would be reconciling items, which need to be analyzed and corrected, if necessary.

Although Finance's Fixed Asset Policy discusses an annual fixed asset inventory to be performed by a contracted agency, the last such inventory was conducted in FY 2015 and did not include vehicles and fleet equipment. In fact, Finance informed us that an inventory of fleet units has not been performed since the early 2000's. Hence, it is even more important for the Office of Finance to have an accurate system of its own to keep track of the fleet units.

Please note that we did discuss this situation with the CPA firm that audits the County's financial statements. The CPA firm does not think the situation is material in relation to the financial statements as a whole because many of these assets have been wholly or substantially depreciated and, thus, the book values would not be significant.

2. Timely processing and affixing of Asset Tag Numbers

Per the Office of Finance's Fixed Asset Policy, "The Office of Finance, through its fixed asset management function, is responsible for the issuance of 'fixed asset bar-code tags' to the property custodian, who in turn is responsible for its placement onto applicable fixed assets." In recent years, the County has moved towards lease-purchasing its fleet items, instead of buying them outright, and this has caused an issue with the bar-code tags (i.e., Asset Tag Numbers).

Once a vendor is selected for the lease-purchase of a vehicle or piece of equipment, the item is ordered from the vendor through a purchase order. Since the County procures most fleet assets through executing a lease-purchase agreement with a financing company, Purchasing tries to time the signing of the lease documents with the expected delivery date of the item; however, in general, the date of the signing of the lease does not correspond with when the first lease payment is due. When the fleet asset is delivered to the garage, Fleet Operations inspects it and, if the item meets specifications, sends the invoice and Application for Title to Purchasing. Once the Title is received from the State Division of Motor Vehicles (with the financing company as a secured party), Purchasing sends a Payment Request Form, invoice, and title to the Escrow Agent,¹¹ and the Escrow Agent then pays the vendor.¹² Once the vendor has been paid and the finance company notifies the Office of Finance that the first lease payment is due, Finance requests a copy of the lease from Purchasing, sets up the lease on Tier, and generates the Asset Tag

¹¹ One of the lease documents is an Escrow Agreement which requires the lease finance company to deposit the total purchase price of the vehicle(s) with an escrow agent. The escrow funds will be used to pay the vendor once the vehicle(s) is received.

¹² If multiple items have been ordered from the vendor and not all items are received initially, then the invoices and titles will only be for the items received.

Numbers for all items covered by the lease (to be delivered to Fleet Operations and affixed to the vehicles/equipment).

An example of this process for the purchase of 79 2016 (model year) Chevrolet Tahoes is as follows:

- RFP for Chevrolet Tahoes issued on March 20, 2013 and contract awarded to vendor on May 29, 2013. (Note: The RFP states that it is for 2013 Tahoes; per Purchasing, however, the County can use this RFP for up to three additional years. Thus, the 2013 RFP was used for the purchase of the 2016 Tahoes.)
- Letter to vendor formally ordering the 79 2016 vehicles dated September 2, 2015.
- Purchase Order prepared on September 3, 2015.
- Lease documents received from vendor in September 2015 and lease signed by County in November 2015.
- Arrival dates of vehicles to Fleet Operations occurred on various dates between February 2, 2016 and November 17, 2016. The vehicle received on February 2, 2016 was put into service on February 29, 2016.
- First invoice from vendor dated February 4, 2016.
- Title of first vehicle received from vendor is dated February 10, 2016.
- Lease set up on Tier on March 30, 2016.
- Asset Tag Numbers for all vehicles generated on or around April 7, 2016 although only a few of the vehicles had been received by then.¹³
- First payment on lease due April 30, 2016.

Thus, as can be seen in this example,

- Due to the delayed start in setting up a lease, Asset Tag Numbers are sometimes generated after certain units have already been put to work in the field. We believe this issue could be alleviated if Purchasing provided Finance with a copy of the lease documents immediately after the lease has been executed between both parties. Fleet Operations and one of its clients expressed a particular concern with equipment sometimes being issued for use in the field without the Asset Tag Number being affixed, as this increases the risk of losing the asset.
- Due to the nature of the process (i.e., payments on the lease sometimes starting before all units are received), Finance has to generate Asset Tag Numbers before receiving complete vehicle details (like VINs and Serial Numbers) of the units. Finance depends on Fleet Operations for such details as all fleet vehicles and equipment are directly delivered to Fleet Operations for inspection.

3. Recording all outcomes for fleet units

Currently, the fleet management system (M4) appears to be the most accurate system for recording fleet asset information, including status. However, for situations when the vehicle is “totaled” in an accident or is lost or stolen, the status of the unit on M4 does not reflect the event. The existing status choices of

¹³ Note: For those assets which are not received before fiscal year-end, Finance does make an adjustment in Tier so that such assets and the corresponding liability will not be reflected in the County’s financial statements at year-end.

units on M4 are only Active, Inactive, Flagged for Disposal, and Sold. Thus, during our review and apparently due to the lack of status options, we found a stolen unit recorded as “Sold”, a totaled unit recorded as “Active”, and a lost unit recorded as “Sold.” Not having these additional status options hinders tracking of such incidents and could prevent management from realizing that there may be a problem. Due to the lack of recording these outcomes, we were unable to determine whether theft, loss, and/or destruction of inventory is a significant problem (although we don’t believe it is).

Recommendations – Fleet Operations, Finance

We recommend management of both Fleet Operations and Finance meet to discuss potential solutions to the above issues. Ideas that should be considered are as follows:

- Ensure there is a linkable field (e.g., Unit Number, Asset Tag Number) on both M4 and Tier which enables an electronic reconciliation of key data on both systems. Since Fleet Operations will be converting from M4 to M5 and the County will, in the next couple of years, be converting to a new financial system, this issue should be considered in both conversions. (M5 should include a field for storing the Asset Tag Number for the unit. Vice versa, the new financial system should record M5’s Unit Number in a reportable field.) However, management should also be looking at some immediate solution now. We did find that M4 has an ‘Asset No’ field which is blank for all units but could be used to record Tier’s Asset Tag Number.
- Once there is a linkable field, consideration should be given to having Fleet Operations perform a periodic reconciliation, with Fleet Operations then reporting the results to Finance. (Note: Fleet Operations should instruct Finance to correct the VINs on Tier for the 2016 vehicles mentioned previously.)
- The Office of Finance should review its Fixed Asset Policy and determine if it is time to perform a fixed asset inventory, including the fleet.
- The Office of Finance should request Purchasing to provide it with a copy of the lease documents immediately after the execution of such documents. Finance can then set up the lease on Tier and generate the Asset Tag Numbers sooner in the process. Fleet Operations can then ensure that all new fleet units have Asset Tag Numbers affixed on them before being put to use.
- During the Business Process Assessment for converting from M4 to M5, Fleet Operations should request a field to record different unit outcomes (including “stolen”, “totaled”, and “lost”) or else increase the possible options for the status field to include these same categories.

Management’s Response –

Fleet Operations

- A. Recommendation Bullet #1 from above: This functionality exists in M5 and Fleet Operations will utilize this feature accordingly.
- B. Recommendation Bullet #2 from above: Fleet Operations will provide Finance with an inventory list and work together to reconcile asset information. This can be done immediately and as requested.

- C. Recommendation Bullet #5 from above: This functionality exists in M5 and Fleet Operations will utilize accordingly. This function will be available after M5 goes live in April.

Finance

- Recommendation Bullet #2 from above: Tier is scheduled to be replaced as of July 1, 2020. Due to the cost of modifying Tier, Finance will not make changes to Tier. Finance will work with the implementation team for the new ERP system to ensure that accurate data is converted into the new system and to determine if an interface is available between M5 and the new system. The asset number is available to Fleet Operations and can be used by Fleet Operations in M5.
- Recommendation Bullet #3 from above: Finance is in the process of reviewing its Fixed Asset Policy to determine the cost/benefit of utilizing an outside firm to perform a periodic inventory of County assets. Currently, the County contracts with an outside firm to periodically conduct an inventory of fixed assets. Finance has determined that neighboring governments such as the State of Delaware, City of Newark, and Sussex County require each department, agency, district and/or school to perform an annual inventory of assets and to complete a form verifying that assets are accurate as stated or to notify Finance of any changes. The County will look to implement this process starting in Fiscal Year 2020 and will update the Fixed Asset Policy to reflect the change. This process will also address the recommendation of, "having Fleet Operations perform a periodic reconciliation", as going forward this will be required annually.
- Recommendation Bullet #4 from above: During the exit meeting with Audit, Fleet Operations, Purchasing and Finance, it was determined that Purchasing would provide Finance with a copy of lease documents immediately after the execution of such documents. This will allow the timely recording of lease activity in Tier and the timely generation of asset tags.

OPPORTUNITIES FOR IMPROVEMENT

ASSIGNMENT, UTILIZATION, AND REPLACEMENT OF FLEET VEHICLES AND EQUIPMENT

7. Evaluate and formalize overall County policy for assignment, utilization, and replacement of County vehicles. Consider making more use of pooling.

Comment

At an April, 2013 County Council Special Services Committee meeting, the then Internal Services Division Manager gave a presentation on certain aspects of the County's fleet. Regarding fuel utilization and efforts to reduce the size of the fleet, the presentation covered the following:

- For the past four to five quarters, Fleet Operations had been looking at the assignment and utilization of vehicles. Fleet Operations wanted to ensure the "right vehicle is with the right purpose and that the usage matches the condition of the vehicle." For instance, if a vehicle with low mileage has been assigned to an employee having low usage of the vehicle, it is better to assign that vehicle to an employee with higher usage so that the County makes better use of a vehicle with lower mileage.
- A pooling program had been instituted within Special Services (now Public Works), resulting in a reduction in the fleet of 12 vehicles, and the pooling concept had been shared with Community Services and Land Use. [Note: Public Works still has its pool program but we are unaware of Community Services or Land Use ever instituting one.]
- Fleet Operations would continue performing quarterly reviews of utilization.

At the beginning of this audit, we met with the Transportation Division Manager and the Internal Services Division Manager and discussed assignment, utilization, and replacement of vehicles. The informal, unwritten policy the County is following for fleet replacement is 80,000 miles or 8 years. (Of course, there are other factors involved in this analysis.) This suggests an underlying assumption that a typical vehicle will be utilized at the rate of approximately 10,000 miles per year.

As indicated in our General Comment on Policies and Procedures (page 11), there are jurisdictions that have formal policies regarding assignment, utilization, and replacement of vehicles. For instance,

- Many fleet organizations have developed a weighted point system that puts the various factors for replacing vehicles into a formal review process. This has the advantage of taking most of the politics out of the budget process because all stakeholders (including budget staff and fleet users) understand the factors being considered and have bought into the process.¹⁴
- The City of Palo Alto (California) has a minimum utilization policy of 2,500 miles a year for vehicles and 50 hours a year for metered equipment. Waivers are required for vehicles/equipment not meeting the minimum use. Please note that we performed a test on this audit which analyzed the

¹⁴ "Planned Fleet Replacement" book, July 2012, American Public Works Association.

reasons for certain vehicles driven less than 2,500 miles in FY 2018. Most of these vehicles are in the Public Safety Department and we found that there appear to be legitimate reasons for the low use for virtually every vehicle (e.g., vehicle waiting to be assigned once a new police officer begins); however, we are certainly not experts on Public Safety and the need for low-utilization vehicles. Therefore, at a minimum, we believe that a utilization policy for New Castle County should encompass sending an annual list to the department head of all vehicles driven less than a management-determined threshold and asking the manager to review it to determine if the department still needs the vehicle and why (and, if not, it could be placed into Public Work’s pool or sold on GovDeals).

- The State of Pennsylvania’s Bureau of Vehicle Management reviews agency requests to increase the size of their assigned fleet (Motor Vehicle Authorization List or MVAL) and generally only approves requests if “... new programs are created, existing programs are expanded, or when an agency has accepted program responsibilities from another agency. Prior to requesting an increase in its MVAL, an agency shall first review utilization of its existing agency passenger vehicles to determine if vehicle reassignments would best meet agency needs ... Agencies must demonstrate a compelling need for expansion vehicles and must confirm that existing agency vehicles are utilized according to Minimum Mileage or Utilization Standards ...” As far as replacement of existing vehicles, the policy states “Requests to purchase or lease passenger vehicles will be denied if all current vehicles are not being used according to the Minimum Usage or Utilization Standard.”
- The State of Maryland’s “Policies and Procedures for Vehicle Fleet Management” states, regarding the assignment of vehicles, “Whenever practicable, Agencies shall pool State vehicles to increase utilization of vehicles ... State vehicles should only be assigned by Agencies to those authorized drivers who travel the greatest number of miles per year; unless the Agency and the Department of Budget and Management determine that the use of a State vehicle is required for the efficient operation of a State program regardless of the miles traveled ... State vehicles may be assigned by Agencies to those authorized drivers that have specific field assignments when it is in the State’s best interest.”
- The State of Delaware’s Office of Fleet Services also has a policy for the assignment and utilization of State vehicles. Such policy discusses 80%+ utilization.¹⁵

We realize that these are much larger jurisdictions than New Castle County; however, we still believe it is a good idea for the County to formalize its unwritten policies.

Our analysis provides, for FY 2017 and FY 2018, the vehicle utilization statistics by department (see Table 4). As can be seen, less than 30% of vehicles were driven over 10,000 miles in FY 2017 and FY 2018. This may be too high of a threshold given the particular circumstances of each department;¹⁶ however, only 65-70% of vehicles are being driven at least 2,500 miles a year.

¹⁵ Note: The policy does not define what 80%+ utilization means.

¹⁶ We realize that there are many legitimate reasons why vehicles are assigned to departments but aren’t necessarily driven 10,000 or more miles in a year. For example,

- Police vehicles waiting to be assigned to new officers.
- Police vehicles only used in specialized situations such as training, undercover work, SWAT situations, etc.
- EMS vehicles obviously used only for emergency situations.
- Land Use inspectors need vehicles full time for jobs but may not drive 10,000 miles a year.

Table 4: FY 2018 Vehicle Utilization by Department

| Owning Department | Percent Utilization >= 2500 miles | Percent Utilization >= 5000 miles | Percent Utilization >= 10000 miles | Total Number of Vehicles |
|--------------------|-----------------------------------|-----------------------------------|------------------------------------|--------------------------|
| Executive Office | 50% | 50% | 0% | 2 |
| Administration | 69% | 31% | 8% | 13 |
| Public Works | 45% | 31% | 7% | 423 |
| Community Services | 41% | 23% | 9% | 22 |
| Land Use | 85% | 65% | 18% | 34 |
| Public Safety | 80% | 70% | 43% | 565 |
| Sheriff's Office | 80% | 60% | 60% | 10 |
| Total | 65% | 53% | 27% | 1069 |

* Report only includes vehicles (defined as units with license numbers) active as of 7/6/2018

** The different divisions within Administration that use County vehicles are the Office of Law, Office of Finance and Administrative Services.

- The analysis in Table 4 seems to suggest that the County might benefit in certain cases by pooling vehicles together. It could increase fleet utilization and reduce vehicle count by allowing users to share assets instead of assigning them to specific users or departments. Currently, both Public Safety and Public Works have pool cars of their own. Setting up another pool for some of the other departments, such as those residing in the Government Center and Gilliam Building, might work well as these departments are in the same geographic area. Our research revealed that there is pooling technology where drivers reserve the vehicles online and unlock them with a Radio-Frequency Identification (RFID) card.¹⁷ It eliminates the need for an on-site attendant and keeps everything organized. The current Public Safety and Public Works pools might also benefit from technology (e.g. integrating telematics data with scheduling vehicles for use) in increasing vehicle utilization.¹⁸
- The analysis suggests that there may be situations of under-utilized vehicles where it could be more cost-effective for the County to sell the vehicles rather than holding on to them.

Recommendations – Fleet Operations

We recommend that Fleet Operations management:

- Consider developing a utilization policy in which departments must justify having assigned vehicles driven less than a management-determined mileage threshold each year. Since this management-determined threshold would most likely differ by department, Fleet Operations should consider having a Fleet Liaison in each department who would be responsible for developing utilization guidelines for each department.

¹⁷ <https://www.government-fleet.com/156345/whats-new-in-motor-pool-technology>

¹⁸ Fleet Operations did inform us that they had evaluated the on-line reservation system that the State of Delaware utilizes; however, it is very expensive.

- Evaluate the possibility of having a pool car program for certain vehicles which are currently assigned to individuals in the Government Center and Gilliam Buildings.
- Research motor pool technologies for increasing vehicle utilization in the current Public Works and Public Safety motor pools.

Management’s Response – Fleet Operations

- A. Fleet Operations will review the utilization policies from other jurisdictions and participate in the possible development of a County-wide policy while incorporating best industry practices. Internal Services Manager already has a point of contact in every Department for fleet issues.
Estimated time for completion – A draft policy may be available for review in (3) three months. This may be included in a County-wide vehicle-use policy which will also include the Preventative Maintenance guidelines.
- B. Fleet Operations would be happy to share how we operate our pool-car program with other departments upon request.
- C. The technology exists in both M4 and M5 to pull utilization reports for all vehicles. In the absence of a formal County-wide utilization policy, Fleet Operations will share utilization reports with department contacts. The reports may illustrate the need to redistribute vehicles among users that share common job functions in order to better balance use.
Estimated time for completion – This can occur immediately and reoccur on a monthly basis.

MAINTENANCE OF VEHICLES

8. To ensure preventative maintenance is performed on a timely basis, develop County-wide policy for assigned vehicles.

Background

The lease agreement signed by the County when lease-purchasing a fleet asset states “Lessee agrees to maintain the Equipment in good condition and make all necessary repairs and replacement at Lessee’s expense. Lessee agrees to maintain a maintenance log for the Equipment and permit Lessor to inspect the Equipment and the log(s).”

There are various departmental written policies for scheduled preventative maintenance of vehicles/equipment assigned to the department. (Note: The Executive Office, Office of Law, and Administrative Services do not have policies but the vehicles assigned to these areas are minimal.) For instance:

- Public Works: “It is the responsibility of the operator / assigned operator of any County vehicle to check the mileage sticker located on the driver’s side front window and make the necessary arrangements with the Garage for preventative maintenance (PM). The PM needs to be scheduled

and performed within a 500-mile window before or after the mileage listed on the sticker ... Operators failing to abide by the mileage or calendar deadlines may be subject to discipline.”

- Public Safety:
 - Police: “Routine periodic maintenance (P.M.) shall be completed every 3,000 miles traveled or every six months, whichever occurs first, by Special Services¹⁹ personnel. Vehicles will be serviced within 500 miles (under or over) the 3,000-mile requirement. Personnel whose vehicles are **over** the 500-mile requirement will be subject to progressive discipline.”
 - Emergency Management, Emergency Communications: “Preventive maintenance will be done in accordance with the policy and procedures of Special Services²⁰ and the Fleet Manager. Usually 6,000 miles or 6 months. It is the responsibility of the employee to schedule and coordinate temporary replacement of the vehicle when necessary.”
- Sheriff’s Office: “Routine periodic maintenance (P.M.) shall be completed every 3,000 miles traveled or every six months, whichever occurs first, by Special Services²¹ personnel. The assigned employee is responsible for scheduling this process through the Transportation Division ...”
- Land Use: “Personnel are responsible for maintenance of fuel and oil levels and shall refuel any vehicle when the fuel level drops to one-quarter (1/4) tank or below. To ensure that oil levels remain sufficient, oil levels should be checked periodically.” Although the policy does address maintenance of proper oil levels, it does not address changing the oil which would be part of bringing the vehicle to Fleet Operations for preventative maintenance.
- Community Services: Although the policy has a section for what to do if a vehicle needs a repair, it does not address scheduled preventative maintenance.
- Personnel Policy on “County Take-Home Vehicles” (ostensibly covers all County employees who have a take-home vehicle, would not however cover employees who have an assigned vehicle but do not take it home): “The basic care of and responsibility for take-home vehicles assigned to individual employees rests with the employee ... Routine periodic maintenance shall be completed by the Department of Special Services²² as their procedures dictate. The assigned employee is responsible for scheduling this process through the Transportation Division ...”

As the reader can see, each policy (except Land Use’s and Community Service’s) addresses the need to bring vehicles to Fleet Operations for preventative maintenance. However, each policy is different as far as the possibility of discipline and how to ascertain when one’s vehicle is ready for maintenance.

Testing

For our testing of preventative maintenance, we asked one of the Data Technicians to generate an M4 System report of all vehicles/equipment that had a scheduled due date for maintenance of July 14, 2018 and prior. In analyzing this report, we noticed approximately 130 items which had maintenance due dates

¹⁹ Now called Public Works.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

before calendar year 2018. We asked Fleet Operations to review this report and learned that many of the items are not issues for various reasons. For example,

- A unit could be on this report for both a PMA (which is basic oil and filter work) and a PMC (oil and filter work plus other preventative maintenance); thus, although it is overdue for maintenance, bringing the vehicle in once will address both line items on the report.
- There are pieces of equipment on the report which have been lost, stolen, or broken. In these situations, Public Works informed us that the area to which the equipment is assigned should have completed a Supervisor's Investigation Report (SIR) which would inform Fleet Operations that the item should be removed from the M4 System. If Fleet Operations does not receive the SIR from the applicable area, then the item would remain on M4 and show as needing preventative maintenance.

However, there are still legitimate instances where vehicles/equipment are seriously beyond the scheduled due date for maintenance.

While performing our testing, we learned that the Risk Manager (as a result of attending a conference) had recently looked into the issue of vehicles/equipment receiving timely preventative maintenance and, as a result, had worked with Fleet Operations to issue emails to each applicable department showing all vehicles/equipment past the due date for scheduled maintenance. An example of the language in one of these emails is:

“The vehicles identified on the attached spreadsheet are in need of preventative maintenance and should be taken to the Base D garage for service within the next 30 days.

It is imperative that the County's fleet receives the necessary preventative maintenance for both our employees' safety and to extend the life of the fleet. Please remind our employees of these points.

Furthermore, please ensure that your Department has an SOP in place which addresses regular maintenance of the Department's vehicles. In addition, it is strongly recommended that you have at least one individual in the Department (and a back-up wouldn't hurt) that is responsible for tracking the service date/mileage on the Department's vehicles.”

We commend the Risk Manager's efforts in addressing this issue.

Recommendations – Fleet Operations, Human Resources

We recommend that Fleet Operations work with Human Resources to develop a policy for County assigned vehicles (not just take-home vehicles). This policy should:

- Require each employee with an assigned vehicle to sign a standard form acknowledging his/her responsibilities (including preventative maintenance) with having a County vehicle. {Note: If the

vehicle is assigned to the department as a whole, and not to any particular individual, then the Department Manager or Fleet Liaison (see below) should sign the form.}

- Require each department to assign an individual (a Fleet Liaison) in the department the responsibility for monitoring the preventative maintenance due dates for the department's vehicles/equipment and notifying the applicable employees to bring the vehicles/equipment to Fleet Operations on or before the scheduled due date. Perhaps this individual could be the Department's representative on the County's Safety Committee.
- Similar to the Police Department's existing policy, consider some sort of employee discipline if a vehicle is brought to Fleet Operations after a certain number of months/miles after the scheduled due date. Perhaps this could be noted in the Safety section of the employee's evaluation.

Management's Response –

Fleet Operations

- A. Fleet Operations will work with Human Resources and Risk Management to offer input for development of a County-wide policy; however, HR and Risk should be the primary lead of the effort if discipline is to become a component of the policy.

Estimated time for completion – This will take a coordinated effort between all Departments in New Castle County and may take as long as (6) six months to have a draft ready for review.

Risk Management

Risk Management will work with Fleet Management to revise the current personnel policy. The revised policy will address not just take-home vehicles, but all vehicles utilized for County business.

FUEL MANAGEMENT

9. Enhance internal controls over the ordering, use, and inventory of fuel.

Comment

Fuel transactions for the main base (Churchmans Road facility), the five outer bases, and the fuel trucks are recorded in FuelMaster's fuel management system. (See Table 5.) The main base has two above-ground 12,000-gallon tanks for gasoline and one above-ground 12,000-gallon tank for diesel, while the outer bases have 1,000-gallon tanks with a partition wall in the center separating diesel (500 gallons) from gasoline (500 gallons). A Data Technician orders fuel for the tanks at the main base and Property Maintenance takes care of ordering fuel for the outer bases. To access fuel at the main base and the five outer bases, the user must use a "prokey" and enter his/her social security number and the unit's mileage/hours. The fuel truck operator maintains a sheet with all fuel dispensed from the fuel truck,

which he gives to the Data Technician for entry into Fuelmaster. The fuel truck gets fuel directly from the outside vendor’s fuel delivery truck.

Table 5: Fuel transactions by Fueling Site

| Fueling Site | Quantity (gallons) |
|--------------------|--------------------|
| Iron Hill | 3,392 |
| Brandywine Springs | 3,300 |
| Fuel Truck | 9,031 |
| Alapocas | 7,577 |
| Banning | 2,899 |
| Churchmans Base | 720,938 |
| Delcastle | 2,982 |
| Total | 750,119 |

Our audit testing revealed a few issues:

- Veeder-Root²³ Readings:** We reviewed a sample of payments made for fuel in April and May 2018. We looked at the invoices, Oil Price Information Service (OPIS) reports, and bills of lading corresponding to these payments. We also obtained Veeder-Root readings for some fuel deliveries at the main base for the same months. On comparing the Veeder-Root readings to the fuel delivered amounts, we found that the amount of fuel delivered per the Veeder-Root reading was consistently higher than the amount recorded in the bill of lading and invoice. When we mentioned this to Fleet Operations’ management, they had the vendor calibrate the above-ground fuel tanks and the distribution system (pumps). Fleet Operations will now monitor the readings over a period of time to see if the issue is resolved.
- Leak Checks:** The Data Technician handling fuel maintains a fuel inventory control spreadsheet provided by DNREC for each of the three tanks at the main base. We reviewed the inventory control spreadsheets for April and May 2018 and noticed that for Tank 1 (diesel), the “Total Gallons Over or Short” number was larger than the “Leak Check” number. The DNREC spreadsheet is explained in the 1993 EPA document, “Doing Inventory Control Right For Underground Storage Tanks”,²⁴ and it seems that when the “Total Gallons Over or Short” number is greater than the “Leak Check” number for two or more months, it might be an indication of a possible leak in underground storage tanks. Even though the County has above-ground storage tanks, we believe it might be advisable to get DNREC to review the Inventory Control Spreadsheet for Tank 1 to ensure that everything is as it should be with this tank. (Note: The Acting Transportation Division Manager is first ascertaining whether this discrepancy may be due to variations in how different operators take readings from the pumps.)

²³ Veeder-Root is actually the name of the company that manufactures various fuel-related products including the device which measures the amount of fuel in a tank.

²⁴ <https://www.epa.gov/sites/production/files/2014-03/documents/inventry.pdf>

- **Inventory control spreadsheets for main base.** These spreadsheets show, for each month, the difference between the actual month-end number of gallons and what the spreadsheet indicates the number of gallons should be. However, it appears that such differences are not being investigated.
- **Inventory control for outer bases:** For the outer base fuel tanks, inventory control spreadsheets are not maintained. Thus, it is not possible to perform a reconciliation of the actual fuel to an inventory record of what the fuel total should be. The outside fuel vendor delivers fuel on a pre-determined schedule (i.e., it is not ordered) and dispenses enough fuel to “top off” the tanks. The vendor leaves the delivery slip at the location’s maintenance shop to be sent to the Public Works’ Fiscal Unit for payment.
- **Use of mid-grade gasoline:** Not many users seemed aware that the County pays for mid-grade gasoline at the outer bases. In fact, the County does not have a mid-grade fuel contract with the vendor and these payments are based on a State contract for regular unleaded gasoline. The Purchase Orders for the various outer base locations specify “Regular No-Lead Gasoline”, even though the County is paying for mid-grade gasoline. In our conversation with the Property Maintenance Manager, we learned that the County may have moved to mid-grade gasoline since the high ethanol content in the regular unleaded gasoline was burning up some equipment like weed eaters. The County appears to have purchased about \$22,000 of mid-grade fuel in FY 2018, part of which was used to fuel vehicles which do not require mid-grade fuel, e.g., pickup trucks. Though this is not a material amount, the lack of a written agreement with the vendor is concerning because the terms are not clearly specified and could be changed by the vendor without notice.
- **Credit card exceptions:** The Fuelman credit cards can be used at gas stations by the Southern Patrol and EMS. The prior Transportation Division Manager had set the Fuelman card settings such that the cards can be used only for gas transactions (there is a separate system for car washes and no convenience store transactions are allowed on the card), there is a daily transaction limit, and there are restrictions on the type of fuel vehicles may use. With the move to the M5 system, Fleet Operations is going to start using FleetFocus’s Trip cards instead of Fuelman cards. Fleet Operations management informed us that they will have the same amount of control, as with Fuelman cards, on the types of transactions and locations where the Trip card can be used.

Our analysis of various fueling exceptions on the Fuelman card statements for FY 2017 (such as out of sequence odometer readings, purchase of restricted fuel, etc.) revealed that about 24% of Fuelman card transactions had some exception.²⁵ Although the prior Transportation Division Manager apparently reviewed these statements, we did not see any evidence that he was analyzing and addressing (if necessary) such exceptions. With the move to the M5 system and adoption of Trip cards, we hope that Fleet Operations management will continue to set restrictions on the usage of such cards, as well as start to formally monitor and address exceptions.

²⁵ Please note that these are “exceptions” per the Fuelman statements. These may or may not be “exceptions” to Fleet Operations’ practices.

Recommendations – Fleet Operations, Public Works Fiscal Unit

We recommend that Fleet Operations management:

- Determine if the vendor calibration of the above-ground fuel tanks and distribution system (pumps) has alleviated the issue of the amount of fuel delivered per the Veeder-Root reading being consistently higher than the amount recorded in the bill of lading and invoice.
- Consult with DNREC to determine, for Tank 1, whether the “Total Gallons Over or Short” number being larger than the “Leak Check” number is an issue for above-ground tanks. If so, consult with DNREC on a solution.
- For the main fueling base, monitor the inventory control spreadsheets for any exceptions or abnormal readings. Management should also determine an acceptable level for the difference between the actual month-end number of gallons and what the spreadsheet indicates the number of gallons should be. Differences higher than this level should be investigated and explained.
- Consider implementing the use of inventory control spreadsheets for the outer bases and performing a periodic inventory/reconciliation against the spreadsheet.
- Determine if the dollar amount of mid-grade gasoline used annually exceeds the \$25,000 Purchasing threshold for purchasing supplies by formal, written contract from the lowest responsible bidder. If so, work with Purchasing on securing a vendor and entering into a contract with such vendor. If not, discuss and document with the current vendor the pricing arrangement for the mid-grade gasoline and specify on the annual purchase order the amount attributable to mid-grade gasoline and the amount attributable to diesel fuel (which is also purchased from this vendor).
- Periodically review and ensure that all fuel payments are made based on applicable contracts with vendors.
- Continue to review fuel credit card statements for exceptions and abnormal fueling patterns, and take any corrective actions deemed necessary.

Management’s Response –

Fleet Operations

- A. 1st bullet above: On October 3rd we had our fuel system recalibrated to address the problems recognized by a review of our fuel system spreadsheets while collecting information during the audit.
- B. 2nd and 3rd bullets above: Fleet Operations has made considerable strides in correcting fuel system issues recognized during the audit process. Fleet has established communications with DNREC and was able to gain support on Fleet’s understanding of current policy and procedures for above the ground fuel storage tanks. It was learned that the formula being used by New Castle County to calculate reconciliation between our fuel tanks and what had been distributed (Veeder Root) was incorrect. We have since corrected this issue.
- C. 4th bullet above: The fuel distributed at our Parks is monitored by our Fuel Master pro-kee. These transactions are shared and captured by our M4 and M5 systems and tracked electronically.

D. 7th bullet above: Fleet Operations will continue to monitor Credit card usage for exceptions and abnormal fueling patterns. We are optimistic with M5, any exceptions will be eliminated.

Public Works Fiscal Unit

- 5th bullet above: Per conversation with Purchasing, the vendor has verbally committed to using the rate per the small tank pricing via the State bid. Vendor documents price by supplying the rate sheet from the OPIS Gross RFG Ethanol Prices report. Public Works Fiscal will monitor expenditures to determine if the threshold is going to be reached. If this becomes an issue, Public Works Fiscal will work with Purchasing to bid the mid-grade gasoline.
- 5th bullet above: Currently the Department does separate via PO mid-grade and Diesel fuel. The mid-grade PO verbiage is in the process of being changed to reflect that the purchase is for mid-grade fuel and not “regular”. The forecasted dollar spend for FY19 will be approximately \$22,000.
- 6th bullet above: Each invoice is reviewed against the OPIS report to ensure pricing is accurate based on the applicable contracts.

FLEET MANAGEMENT SYSTEM CONVERSION

10. Take full advantage of M5 System features which allow for opportunities to enhance the internal controls and the effectiveness & efficiency over current day-to-day operations, particularly the dashboard, reporting, and performance measure modules.

Comment

Fleet Operations is in the process of converting from the FleetFocus M4 system to FleetFocus M5. M5, a robust web-based application, is better supported by the vendor, is more compatible with the County’s hardware, allows for more user-friendly reporting, and has features which will eliminate certain work performed manually. (For example, mileage information from Fuelman cards is currently manually updated to M4.)

The County executed a Statement of Work Agreement with the vendor in July of 2018 and a project “kick-off” meeting, with the vendor’s project manager and the Fleet Operations project team, was held in August.

The FleetFocus vendor is now working with the Fleet Operations project team on a Business Process Assessment of Fleet Operations’ business processes “to identify opportunities to engineer those processes to take full advantage of the functionality and capabilities of the FleetFocus application.”²⁶

FleetFocus M5 has several features which allow for greater effectiveness and efficiency over Fleet Operations’ business processes. For example,

²⁶ Per Statement of Work contract executed between the County and the vendor.

- M5 allows for an automated interface with the Fuelmaster System so Fleet Operations will no longer have to manually upload transactions from Fuelmaster to FleetFocus. When we analyzed whether all the FY 2018 transactions from the Fuelmaster System had uploaded into M4, we found that 8,555 fuel transaction records did not make it into M4. Of these 8,555 transactions, 6,449 occurred at the main base. Information Systems is working with the vendor to figure out why these transactions did not get uploaded to M4 from Fuelmaster.
- M5 allows for an automated interface with the parts vendor's system so parts entries do not have to be entered separately to each system.
- As a part of M5's standard Modules, there is a module on Accident Management which includes the capability to store insurance claim information such as claim number, claim status, estimated repair amount, other party actual amount, write-off amount and subrogation amount.
- With the new system, Fleet Operations should explore the possibility of recording asset tag numbers and lease information (i.e., the number of the lease to which the asset relates) on M5. Our review of M4 fields seems to suggest that it should be possible to record such information on M5 going forward.
- Three of the modules which are being purchased as part of this conversion will provide for more transparency and greater analysis of the overall operation of the County's fleet. These modules are:
 - Operational Dashboards: This module can be used to alert management to a condition that requires some action to correct or manage.
 - Ad-Hoc Reporting: This module allows users to easily develop custom reports.
 - Performance Measures & Monitors: This module allows the user to track and monitor the relative performance of the Fleet Operations area.

Recommendations – Fleet Operations

We strongly encourage the project team to:

- Ensure that the issue that caused incomplete upload of Fuelmaster transactions to M4 is resolved, so that all transactions from Fuelmaster get uploaded into M5 going forward.
- Take full advantage of the features of M5 which allow for opportunities to enhance the internal controls and the effectiveness & efficiency over current day-to-day operations.
- Closely analyze the modules identified above and fully take advantage of reports, indicators, and analyses which can be utilized to more effectively and efficiently manage the County's fleet.
- Consider recording in M5 information on asset tag numbers, additional vehicle outcomes, lease numbers, and claims on accidents.
- Develop a package of routine, key reports for the Acting Transportation Division Manager and the Internal Services Division Manager which they can utilize periodically to evaluate progress towards management's goals / performance measures.

Management's Response –

Fleet Operations

- A. 1st bullet above: Fleet Operations is actively correcting information in our current M4 system in preparation for the M5 transition. Many of the corrections will create a solid foundation of information for the move to M5. We are looking forward to the transition and will be closely monitoring that the changes were incorporated into the new system.
- B. 2nd, 3rd, and 5th bullets above: Fleet Operations is looking forward to the transition to M5 and utilizing all the reporting tools offered with the software to identify and analyze opportunities in efficiencies to effectively manage the County's fleet of vehicles and equipment.
- C. 4th bullet above: Fleet Operations has learned from a recent M5 meeting that there is a specific field they will use to enter Asset Numbers. This should eliminate the need for the use of an adhesive backed decal being attached to the vehicle. M5 will also always enable reports to be generated at request of accident damage, totaled vehicles, etc.

Risk Management

4th bullet above: Risk Management will discuss the possibility of utilization of the software with Fleet Management.