



AUDIT REPORT



DATE November 7, 2018

NO. 2018-005

VEHICLE REPLACEMENT PROGRAM

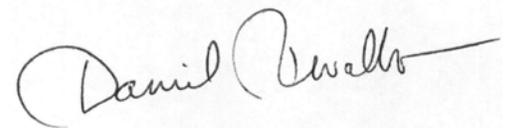
INTERNAL AUDIT DIVISION
ROGER D. EATON
CLERK OF THE CIRCUIT COURT AND COUNTY COMPTROLLER
CHARLOTTE COUNTY FLORIDA

Honorable Roger D. Eaton
Charlotte County Clerk of the Circuit Court and Comptroller
350 East Marion Avenue
Punta Gorda, Florida 33950

We have completed an audit of the Vehicle Replacement Program. The purpose of this audit was to ensure adequate controls exist and are operating effectively over the Vehicle Replacement Program.

The report details the current control environment and includes our comments and recommendations. Management responses have been included and immediately follow the audit report.

Respectfully submitted,

A handwritten signature in black ink that reads "Daniel Revallo". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Daniel Revallo
Internal Audit Director

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EXECUTIVE SUMMARY

Internal Audit has completed a review of the County Vehicle Replacement Program.

Our review disclosed the following:

1. Lack of a written policy and formal written procedures for some processes.
2. Variables used in the Vehicle Lease Spreadsheet are not documented/supported.
3. Two county vehicles are not included in the Vehicle Replacement Program.
4. A significant number of county vehicles appear underutilized.

Based upon the findings of our review, we offer a summary of recommendations. These recommendations are discussed in detail later in this report:

1. **We recommend** Fleet write a policy for the Vehicle Replacement Program and seek authorization and approval from the Board of County Commissioners. We also recommend Fleet evaluate current processes for the Vehicle Replacement Program for the purpose of writing or updating standard procedures covering key processes.
2. **We recommend** Fleet document and support the variables used in the Vehicle Lease Spreadsheet, review the spreadsheet annually to perform adjustments for changes in policy and conditions to ensure Departments are properly charged.
3. **We recommend** Fleet perform annual reconciliations between the active vehicles posted on EDEN, those on the Equipment Master List and on the Vehicle Lease Spreadsheet to guarantee that all County vehicles are included and ensure that necessary funds are available when vehicles are due for replacement.
4. **We recommend** management increase controls to ensure a more efficient utilization of County vehicles by developing an action plan to reassign or eliminate underutilized vehicles and exploring other alternatives to serve those departments for which assignment of a vehicle is not justified due to very low use.
5. **We recommend** a final inspection of potential replacement candidates be performed by Fleet's mechanics before the decision to replace is made.

BACKGROUND

Fleet Management (Fleet) is a division of Charlotte County's Budget/Administrative Services. Fleet provides centralized fleet management for approximately 1,300 pieces of equipment and vehicles. This includes repair, maintenance, and the purchasing and disposal of all replaced or obsolete equipment. Fleet also manages the County's fueling program and provides unleaded and diesel fuel at two locations in the County, one in Port Charlotte and a second in Punta Gorda.

Fleet is accounted for in an internal service fund (Fund 5021). The County departments and various governmental agencies that use Fleet’s services pay part of the costs of operation of the fund. The users are charged for labor, parts, and fuel.

Vehicle Maintenance - Fund 5021

Most current 3 fiscal years assets, liabilities, revenues, and expenses

| Year | 2015 | 2016 | 2017 |
|--------------------|--------------|--------------|--------------|
| Assets | 2,773,304.00 | 2,978,439.00 | 2,832,465.00 |
| Liabilities | 874,947.00 | 944,135.00 | 803,881.00 |
| Revenue | 3,492,133.00 | 3,540,334.00 | 3,618,721.00 |
| Expenses | 3,292,261.00 | 3,301,398.00 | 3,593,634.00 |

This audit assignment is only concerned with the acquisition and disposal of cars and light duty trucks, which is done through a separate Vehicle Replacement Fund (Fund 1038). County vehicles are purchased from the fund when they reach the end of their economically useful life. In this manner, replacements can occur in an orderly, planned fashion and necessary replacements are less likely to be deferred due to budgetary constraints. Fund vehicles include automobiles, sport utility vehicles, and light duty trucks.

Vehicle Replacement - Fund 1038

Most current 3 fiscal years assets, liabilities, revenues, and expenses

| Year | 2015 | 2016 | 2017 |
|--------------------|--------------|--------------|--------------|
| Assets | 696,829.46 | 1,279,111.85 | 2,223,830.46 |
| Liabilities | 1,525,965.07 | 2,790,256.19 | 2,500,000.00 |
| Revenue | 1,489,303.88 | 2,070,582.86 | 2,098,095.64 |
| Expenses | 2,313,680.53 | 2,752,591.59 | 863,120.84 |

Vehicle Replacement - Fund 1038

Break down of Expenses for fiscal year 2017

| | |
|-----------------------------|-------------------|
| Vehicle purchased for: | |
| Facilities | 204,038.47 |
| Public Safety | 131,037.97 |
| Community Development | 106,741.50 |
| Utilities | 57,736.06 |
| Community Services | 103,180.95 |
| Public Works | 241,491.89 |
| Central & Indirect Services | 18,894.00 |
| Total | 863,120.84 |

Break down of Revenues for fiscal year 2017

Information obtained from the Comptroller's financial system EDEN

| | |
|--|---------------------|
| Interest Earnings - Investments | 15,270.61 |
| Interest Earnings - L.G.S,F.T.F | 5,571.45 |
| Net Inc/Decr Fair Mkt Value- Invstments | (4,947.42) |
| Interfund Trf-General Fund | 679,691.00 |
| Interfund Trf-County Transportation | 306,245.00 |
| Interfund Trf-Radio Communication | 4,439.00 |
| Interfund Trf-Tourist Development | 2,896.00 |
| Interfund Trf-Building Construction Srvs | 119,268.00 |
| Interfund Trf-Charlotte Lightning | 17,455.00 |
| Interfund Trf-Fire Rescue | 90,181.00 |
| Interfund Trf-Landfill | 38,794.00 |
| Interfund Trf-CCU-Operating | 552,610.00 |
| Interfund Trf-Self-Insurance | 3,049.00 |
| Interfund Trf-Vehicle Maintenance | 25,871.00 |
| Surplus Furn, Fix, & Equip | 241,702.00 |
| Total | 2,098,095.64 |

The County's Fiscal Division maintains future estimated vehicle replacement costs electronically through the Vehicle Lease Spreadsheet. The spreadsheet is designed to calculate annual charges to user departments and future replacement costs. Future replacement costs are computed by vehicle asset number using appropriate vehicle costs, a standard 30% salvage value rate, and a 3% adjustment for the cost of money applied to the difference between the cost of the vehicle and its salvage value. During workshops of the Board of County Commissioners in 2011 and 2016, the Budget and Administrative Services and Fleet departments proposed to the Board replacement strategies for the acquisition, retention, and disposal of County vehicles categorized as cars and light duty trucks.

In 2011 the Board approved a 5-year replacement program for vehicles older than 5 years with over 100,000 miles and for that purpose Fleet used a 15-point system from FASTER as guideline for replacement. FASTER is Fleet's Asset Management Software. Generally, vehicles were not considered for replacement unless the 15 points and the mileage were reached, with each piece of equipment being reviewed on an individual basis. This point system included 5 points for each of the following: mileage, age, and life-to date maintenance; with maintenance costs double weighted.

In 2012 Fleet began replacing vehicles and charging user departments an annual amount equal to one fifth of the difference between the future replacement cost of the vehicle, reduced by the estimated salvage value. The annual charge continues as long as the vehicle is in the possession of the department, which can extend beyond the original expected life of the vehicle.

During the 2016 workshop, the Board decided to abandon the 15-point system guideline since most County vehicles have well under 100,000 miles. The Board instructed Fleet to increase the time vehicles are retained to 7 years and replace at approximately 10+ points. The Board also gave Budget and Administrative Services and Fleet staff the flexibility and latitude to make decisions on a vehicle-by-vehicle replacement call.

At the end of each fiscal year, Fiscal Services prepares the necessary journal entries to charge County departments the annual charges. A file containing the journal entries and the supporting documentation is then forwarded to the Clerk of Courts Comptroller's office, who verifies the accuracy of the journal entries and performs the posting into the general ledger. Both the journal entries and supporting documentation were reviewed and no exceptions were noted.

AUDIT OBJECTIVES

1. Ensure that Fleet Management has effective and adequate policy and control procedures in place over the Vehicle Purchase Program.
2. Ensure that charges to departments are reasonable and supported by sound assumptions and verifiable calculations.
3. Verify that the vehicle purchase program complies with applicable laws, resolutions, and County policies and procedures.
4. Ensure that the amounts charged to County departments and government agencies are properly posted to the general ledger and that these accounts are properly maintained.

AUDIT SCOPE AND METHODOLOGY

The scope of this audit includes the review of the County's Vehicle Replacement Program along with the evaluation of internal controls. We verified compliance with statutes and rules applicable to the audit, including Rule Chapter 60A-1, F.A.C; Sections 125.35; 163.3164; 287.012; Chapter 274 F.S. We reviewed data from the Clerk's Financial System EDEN and from Fleet's Asset Management Software "FASTER". Fleet's management uses data from FASTER to perform analysis utilized in documenting the basis of vehicle disposal and replacement decisions. We interviewed personnel involved in the decision making process in Fleet and the County's Fiscal Service Division, as well as personnel in the Clerk Comptroller's Office in charge of the accounting of the Vehicle Replacement Fund and the County assets. We conducted audit tests and procedures we considered necessary in the circumstances and researched fleet management best practices and benchmarking data. We reviewed data for the period October 1, 2016 through May 31, 2018, however; transactions and processes reviewed were not limited by the audit period.

COMMENTS AND RECOMMENDATIONS

1. Lack of written policy and formal written procedures for some of the processes

There is no written policy and formal written procedures for some of the Vehicle Replacement Program processes. Those processes include the maintenance of the Vehicle Lease Spreadsheet by the County's Fiscal Division, the decision and rationale for the retention of replaced vehicles, and the determination and assessment of annual fees to County departments.

Written policies and procedures provide the guidance necessary to carry out the activities at a required level of quality and ensure that processes/internal controls have been established. It is management's responsibility to create policy and write internal procedures covering program processes. The Board of County Commissioners has provided fleet with the authority to manage the Vehicle Replacement Program. Therefore, since the program crosses department lines, Fleet should write the policy and seek authorization and approval from the Board.

Fleet has in place and follows vehicle replacement guidelines, but they have not been formally adopted as policy. As a result, some of the existing written procedures are either outdated or incomplete. Well written and updated procedures ensure consistency in the performance of duties, minimize the occurrence of errors, and facilitate cross-training and back-up of key staff functions.

We recommend Fleet write a policy for the Vehicle Replacement Program and seek authorization and approval from the Board of County Commissioners. We also recommend Fleet evaluate current processes for the Vehicle Replacement Program for the purpose of writing or updating standard procedures covering key processes.

2. Variables used in the Vehicle Lease Spreadsheet are not documented/supported

The 30% salvage value and 3% cost of money factors used to calculate the cost reimbursement amounts are not supported by reasonable assumptions and verifiable calculations. The rationale for using them is not documented either. The spreadsheet has not been updated for the change in replacement period, which directly impacts the annual amounts charged to departments.

The Vehicle Lease Spreadsheet is a critical part of the process and is of significant importance because it provides Fleet with the funding data necessary for future vehicle replacements. Accuracy of the assumptions and variables ensures that departments participating in the program are charged correctly.

Based on a 5 year plan, Departments were originally charged one fifth of the vehicle cost adjusted by a 30% estimated salvage value and a 3% cost of money over the five years. There currently is not a set plan. Our concern is that they are extending the departments' usage to 7 years and continue to charge one-fifth (1/5) of the vehicle cost per year, potentially charging Departments seven-fifths (7/5) or 140%.

Charging departments after the cost of vehicles has been recouped at the end of the fifth year may potentially result in an excessive buildup of funds, while making the same funds unavailable to the user departments to cover for County expenditures. In 2017, Departments were charged \$305,736.75 for vehicles in the sixth year of usage. In 2018 and 2019 this number will increase as vehicles acquired in 2013 and 2014 enter their sixth + year of usage.

We recommend Fleet document and support the variables used in the Vehicle Lease Spreadsheet, review the spreadsheet annually to perform adjustments for changes in policy and conditions to ensure Departments are properly charged.

3. County vehicles not included in the Vehicle Replacement Program

We compared the County vehicles active in the Clerk’s Financial Software EDEN with the vehicles included in the “Fleet Equipment List “and the Vehicle Lease Spreadsheet and found that:

- 3 vehicles at a cost of \$94,801.80 were not purchased with funds from the Vehicle Replacement Fund.
- 2 vehicles “Active” in FASTER had a misleading “Retired” status in EDEN.

County vehicles not included in the Vehicle Replacement Program may impact departments services if the funding is not available when they are due for replacement.

We recommend Fleet perform annual reconciliations between the active vehicles posted on EDEN, those on the Equipment Master List in FASTER and on the Vehicle Lease Spreadsheet to guarantee that all County vehicles are included and ensure that necessary funds are available when they are due for replacement.

4. County vehicles are underutilized.

Data from Fleet’s asset management system FASTER was analyzed. The analysis revealed that of the 384 light trucks and vehicles included in the Vehicle Replacement Program, 201 vehicles were underutilized according to Fleet’s utilization guidelines by being driven an average of less than 7,000 miles per year. According to management, Fleet performs an annual review of utilization, but specific guidelines are not available.

Increasing efficiency of vehicle utilization can ensure maximum utilization of the vehicle fleet and use of resources.

We recommend management increase controls to ensure a more efficient utilization of County vehicles by developing an action plan to reassign or eliminate underutilized vehicles and exploring other alternatives to serve those departments for which assignment of a vehicle is not justified due to very low use.

5. Opportunity for improvement

Charlotte County outsources the repairs and maintenance of its automobiles, small utility vehicles, and light duty trucks. Consequently, Fleet’s mechanics do not service them during the vehicles’ life cycle. A final inspection of vehicles may provide justification for retaining them due to better than expected condition. Vehicles may be swapped out between departments or reassign to another department with lower requirements.

We recommend a final inspection of potential replacement candidates be performed by Fleet’s mechanics before the decision to replace is made.

CONCLUSION

Our review determined opportunities to improve and enhance the County's Vehicle Replacement Program process.

ACKNOWLEDGEMENT

We would like to thank the Fleet Management Department, the Fiscal Services Division, and the Clerk's Comptroller Office for their assistance in the completion of this audit.

Audit performed by:
Orlando Solarte
Senior Internal Auditor
Charlotte County Clerk of Court & County Comptroller



MEMORANDUM

Date: October 5, 2018

To: Dan Revallo, Internal Audit Director, Charlotte County Clerk of Courts and Comptroller

From: Gordon Burger, Director of Budget & Admin Services

Subject: Responses to the Internal Audit review of the County Vehicle Replacement Program

Please find below the list of recommendations from your department, and the response from the Board.

- 1. Recommend** Fleet write a policy for the Vehicle Replacement Program and seek authorization and approval from the Board of County Commissioners. We also recommend Fleet evaluate current processes for the Vehicle Replacement Program for the purpose of writing or updating standard procedures covering key processes.

Response: While Fleet has presented our replacement schedule and amendments to the BCC, it has not been formalized as a policy. We have drafted a policy that will go the Board for approval on Nov 13.
- 2. Recommend** Fleet document and support the variables used in the Vehicle Lease Spreadsheet, review the spreadsheet annually to perform adjustments for changes in policy and conditions to ensure Departments are properly charged.

Response: Fleet will document the lease rate formula and variables in the Fleet Operating Procedures manual. Further the policy will document that departments are being charge an annual lease payment.
- 3. Recommend** Fleet perform annual reconciliations between the active vehicles posted on EDEN, those on the Equipment Master List and on the Vehicle Lease Spreadsheet to guarantee that all County vehicles are included and ensure that necessary funds are available when vehicles are due for replacement.

Response: Fleet will document an annual reconciliation process in the Fleet Operating Procedures manual.

Budget & Administrative Services Department

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4. **Recommend** Management increase controls to ensure a more efficient utilization of County vehicles by developing an action plan to reassign or eliminate underutilized vehicles and exploring other alternatives to serve those departments for which assignment of a vehicle is not justified due to very low use.

Response: While Fleet conducts an annual utilization review with Departments and vehicles that are not specific to a job are rotated to other purposes, that process is not formalized in a written policy. We have incorporated it in to the policy going to the Board on Nov 13.

5. **Recommend** A final inspection of potential replacement candidates be performed by Fleet's mechanics before the decision to replace is made.

Response: While Fleet will conduct a final inspection as part of the vehicle preparation for auction, we plan to follow the replacement schedule outlined in the afore mentioned policy. While some vehicles can certainly be kept in use longer, we feel the marginal benefit and risk is more than offset by the following factors.

- We purchase vehicles at an advantageous price.
- We dispose of vehicles at a premium.
- We are able to avoid the risk of additional maintenance and down-time.

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