

FOLLOW-UP OF VEHICLE REPLACEMENT PROGRAM AUDIT

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SUMMARY AND RESULTS

Background

The purpose of the January 2013 audit of the Vehicle Replacement Program was to determine if there was reasonable assurance that the Vehicle Replacement Program complies with applicable laws, resolutions, and County policies and procedures. The audit was also performed to determine if Florida and County requirements regarding the proper disposal of replaced and surplus vehicles was followed. The scope of the audit was based on data from the vehicle recordkeeping database utilized by Fleet Services Department personnel. This database is used by Fleet personnel to perform an annual analysis used to make vehicle disposal and replacement decisions.

The original audit report concluded that the Vehicle Replacement Program appeared to be in accordance with County regulations and that there were documented controls of various steps of the fleet replacement process. However, the following *Opportunities for Improvement* were identified to strengthen internal controls and documentation:

- Timely determination and documentation of the vehicle disposal decision.
- Date of the disposal evaluation not documented on the disposal form.
- Lack of written procedures regarding Vehicle Replacement Program processes.
- Support for the rental rate factor not documented.

Objectives

The objectives of this follow-up audit were to evaluate the current status of observations reported in the Vehicle Replacement Program audit report, dated January 2013, and corrective actions initiated by responsible management. This was achieved through independent, objective analysis to provide reasonable assurance that the previous concerns have been addressed and appropriate corrective measures implemented.

To meet the objectives of the follow-up audit, the following procedures were performed:

- Performed inquiries of Fleet Services Management.
- Reviewed Sarasota County documents relating to vehicle replacement.
- Obtained an understanding of changes made to the policies and procedures related to vehicle replacement since the original audit report date.
- Reviewed 100% of vehicle disposal evaluation forms completed between November 10, 2014, and September 3, 2015.

Overall Results

Based on the results of our follow-up audit procedures, responsible management has addressed all four conditions identified in the original audit report. These items are further described in the report and include:

Condition	Status
A. Timely determination and Documentation of Vehicle Disposal Decision	Closed
B. Date of Disposal Evaluation Not Documented on Disposal Form	Closed
C. Lack of Written Procedures	Closed
D. Support for Rental Rate Factor Not Documented	Closed



CLOSED CONDITIONS AND FOLLOW-UP RESULTS

A. Timely Determination and Documentation of Vehicle Disposal Decision

Current Status, Follow-Up Audit dated November 2015: Throughout the year, the Fleet Services Acquisitions Manager generates reports from the comprehensive software program used by the department to track assets. These reports are used to monitor assets that were turned in to Fleet Services and not declared surplus for disposal. Fleet management determined that it is most efficient to perform a thorough evaluation of assets retained by Fleet Services annually to decide what assets have reached their optimal lifecycle. Data reviewed includes the year of the asset, miles/hours logged, maintenance costs, and down time. The auditor obtained documentation of the most recent evaluation completed (April 13, 2015), observing that the process appears to be functioning as intended.

Original Audit Observation, Report dated January 2013: Fleet Services may decide whether or not to retain a replaced vehicle for other uses in lieu of declaring the vehicle as surplus and initiating the disposal process. Written support was not available to document these Fleet Services decisions and there was no formal process for documenting this decision and the supporting rationale. As a result, there is a risk that these decisions could be questioned by other County departments or the public and there would not be adequate documentation to support these decisions. In addition, due to the lack of a formal requirement to make this determination timely, there may be a delay in disposition and conversion of idle assets into cash and perhaps allowing the asset to continue to depreciate before it is disposed of timely.

Original Recommendation, Report dated January 2013: The County should consider conducting formal reviews, on a regular basis, of all vehicles that have been turned in to Fleet Services that have not been declared “surplus” for disposal. This could be done on a semi-annual basis to ensure that Fleet Services semi-annual reports accurately reflect the status of these vehicles. These determinations should be supported by written documentation of the Fleet Services justification for retention.

B. Date of Disposal Evaluation Not Documented on Disposal Form

Current Status, Follow-Up Audit dated November 2015: To expedite processes and provide for consistency, the Fleet Services Acquisition Manager created a manual check list during FY 2015, *Disposal Evaluation Form*, for technicians to complete when performing evaluations of assets turned in by departments. This form is used by office personnel to update the status of the asset in the software program and includes the date the evaluation was performed. The completed form is retained with other documentation related to the asset.

The auditor tested 100% of the *Disposal Evaluation Forms* completed by service technicians dated between November 10, 2014, and September 3, 2015, observing that forty-nine (49) of fifty (50) forms included the date the evaluation was prepared.

One *Disposal Evaluation Form* did not include the date the evaluation was performed. The Fleet Services Acquisition Manager provided documentation from the software program indicating that the asset was placed out of service on August 31, 2015. The lack of the technician completing the date on this one form appears to be an oversight, but the procedure appears to be effective.

Original Audit Observation, Report dated January 2013: The Fleet Disposal Evaluation Form generated out of the Fleet Services vehicle recordkeeping database provides a date printed but does not indicate the date the evaluation was prepared. The information on this form is as of a specific point in time including lifetime maintenance costs, inservice months and estimated auction value. Without a prepared date, it is difficult to verify the information on the form is accurate as of that point in time. In addition, the date would also aid in determining how long the evaluation and disposal process has taken.

Original Recommendation, Report dated January 2013: Fleet Services should document the date the disposal evaluation was prepared.

C. Lack of Written Procedures

Current Status, Follow-Up Audit dated November 2015: The *Fleet Services Manual* was updated December 2014 to include the policies and procedures for the vehicle replacement program. It appears that all information necessary to understand the process are within these documents.

Original Audit Observation, Report dated January 2013: There are no formal written procedures for the vehicle replacement program processes. Those processes include the maintenance of the vehicle recordkeeping database, the annual process of evaluating vehicle candidates for replacement using database reports and in-person meetings with departments, the decisions and rationale to retain turned in vehicles for other uses, and the determination and assessment of rental fees and monthly maintenance charges to other County departments.

At the time of this audit, Fleet Services was operating the Vehicle Replacement function with three (3) primary staff. Two of these individuals are either currently eligible for retirement or will be eligible for retirement in the next five (5) years. Written procedures would provide the necessary guidance to continue to carry out the Fleet Services vehicle replacement program in the absence of one or more key employees.

From an internal control aspect, the written documentation is crucial in controlling deviations from established procedures and providing consistency to the process and decisions.

Original Recommendation, Report dated January 2013: Written documentation of the vehicle replacement program procedures should be developed and formalized to assure the accuracy, consistency and quality of the entire process.

D. Support for Rental Rate Factor Not Documented

Current Status, Follow-Up Audit dated November 2015: An outside consulting company, that evaluates fleet services operations nationwide, was retained in FY 2015 to update the County's long-range fleet replacement plan and to evaluate various aspects of its fleet replacement program. The auditor was provided a draft copy of the report for the FY 2015 engagement (dated October 29, 2015). The report includes a replacement plan analyses using a 3.5% inflation factor for all fleet assets, except for specialty fire apparatus where 5.5% was used to reflect the escalating cost of the specialized equipment. The auditor was advised by the Fleet Services Acquisition Manager that they anticipate obtaining approval from the Assistant County Administrator and the Office of Financial Management Director in the near future to utilize the 5.5% inflation factor for specialty fire apparatus.

Original Audit Observation, Report dated January 2013: Before a new vehicle is purchased and assigned to a department, the department agrees to pay a monthly fee for use of the vehicle which replenishes the vehicle replacement fund. The monthly fee is calculated using the actual cost of the vehicle plus an interest / (inflation) amount charged at a specific rate. At the time of the audit, the rate used to calculate the monthly charge for all vehicles being purchased was 3.5%. The use of such a rate appears reasonable, however, there is no formal documentation of how to determine and who may approve this rate. The rate is significant to Fleet Replacement Process in that it provides funding necessary for future vehicle replacements.

Original Recommendation, Report dated January 2013: The interest / (inflation) rate used in the calculation of the monthly fee should be formally determined, documented and approved. In addition, this determination should consider whether a single rate used for all vehicles is appropriate or if there are certain vehicles that tend to increase in price at a significantly faster or slower pace.

Vehicles evolve over a period of time making any replacement cost comparisons difficult. Nevertheless, the problem with a single inflation rate can be demonstrated by the following examples: A 2012 Ford F150 pickup (asset 3003581) had a total purchase cost of \$20,211. A somewhat comparable 2004 Ford F150 pickup (asset 3002645) was purchased 8 years (the expected useful life) earlier at \$16,091. In contrast, a much more sophisticated vehicle, a 2012 Horton Freightliner Ambulance with all the conversion costs (asset 3003543) had a purchase cost of \$246,568. The 2006 American LaFrance Sterling Medicmaster 170 (asset 3003097) that it replaced (before the end of the expected useful life of 7 years) had a cost of \$161,944. This demonstrates the vehicle cost disparities and may warrant consideration for using varying rates driven by vehicle type.





APPENDIX A

Following is the original *Audit of Vehicle Replacement Program* dated January 2013.