



OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i



Audit of Select Management Practices of City-Owned Passenger Vehicles Under the Jurisdiction of the Department of Facility Maintenance

A Report to the
Mayor
and the
City Council of
Honolulu

Report No. 09-01
October 2009

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Submitted by

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OF HONOLULU
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Foreword

This audit was conducted pursuant to the authority of the Office of the City Auditor, as provided in the Revised Charter of Honolulu. In FY2006-07, the City and County of Honolulu reported that it owned 2,218 vehicles and motorized equipment valued at \$348,002,191. Given the significant value of these assets, its potential for abuse, the rising cost of fuel, and because no comparable audit or study had been conducted in prior years, our office initiated this audit to examine the city's purchasing and management of motor vehicles. Specifically, the audit focuses on the city's purchasing practices and management of its 949 passenger-type vehicles such as sedans, pickup trucks, sport utility vehicles, station wagons, and vans.

We wish to express our appreciation for the cooperation and assistance provided to us by the staff of the Departments of Facility Maintenance and Budget and Fiscal Services, and others who we contacted during this audit.

Leslie I. Tanaka, CPA
City Auditor

EXECUTIVE SUMMARY

Audit of Select Management Practices of City-Owned Passenger Vehicles Under the Jurisdiction of the Department of Facility Maintenance

Report No. 09-01, October 2009

This audit was conducted pursuant to the authority of the Office of the City Auditor, as provided in the Revised Charter of Honolulu. In FY2006-07, the City and County of Honolulu reported that it owned 2,218 vehicles and motorized equipment valued at \$348,002,191. Given the significant value of these assets, the rising cost of fuel, and because no comparable audit or study had been conducted in prior years, our office initiated this audit to examine the city's purchasing and management of the 949 passenger vehicle fleet under the Department of Facility Maintenance's jurisdiction. Our office opted to review passenger-type vehicles, such as sedans, pickup trucks, station wagons, sport utility vehicles (SUV), and vans, because city agencies have wide discretion in the variety of vehicle makes, models, and types to purchase, and because passenger vehicles are at greatest risk for abuse.

Background

The city's fleet of 949 passenger vehicles is comprised of many makes, models, and types. Vehicles that enter the fleet are requested by individual city agencies, with the approval of the Department of Budget and Fiscal Services and Department of Facility Maintenance. The Department of Budget and Fiscal Services verifies that departments have sufficient funds for passenger vehicle purchases and puts vehicles out to bid. The Department of Facility Maintenance's Automotive Equipment Services Division provides technical assistance to city agencies by developing vehicle specifications for purposes of putting vehicles out to bid. The Automotive Equipment Services Division is also responsible for managing the city's fleet of motor vehicles, including passenger vehicles. In FY2007-08, the division's budget to repair, service, and maintain the city's entire fleet of vehicles was \$16.3 million. The division uses a state-of-the-art fleet management system to monitor and manage the fleet.

Between FY2005-06 and FY2007-08, both the council and administration established initiatives that impact the city's fleet of passenger vehicles. In June 2006, the city council adopted Resolution 06-176, which urged the administration to purchase hybrid vehicles or vehicles with mileage ratings of 40 or more miles per gallon of gasoline for the city's vehicular fleet, except for vehicles purchased and used by public safety agencies. In 2007, the city administration issued Honolulu's sustainability plan that incorporates the mayor's vision for the *21st Century Ahupua'a*. One of the plan's objectives was to acquire six hybrid vehicles for the city's fleet for use and evaluation by June 2008. In addition, the administration issued Mayor's Directive 05-06 in September 2005, which reissued guidelines for personal use of city-owned vehicles for travel between work and home.

Summary of Findings

1. The city's purchasing practices for passenger-type vehicles are fragmented and lack accountability. The city lacks a formal fleet management plan to guide vehicle purchases and purchasing decisions are decentralized with little oversight by agencies tasked with managing the city's fleet. A significant proportion of the city's fleet is older than 10 years, has accrued over 100,000 miles, or driven fewer than 5,000 miles annually. The city's passenger vehicle fleet grew 13 percent over three years despite a *one-for-one* replacement guideline. Despite a city council resolution supporting fuel efficient vehicles, purchase decisions are made without such consideration. Integration of hybrid vehicles into the city's fleet is delayed.
2. The city's fleet management operations practices and structure result in an inefficient fleet that is inconsistent with fleet management best practices. The city has inadequate and unenforceable controls over vehicles taken home by city employees. The facility maintenance department's Automotive Equipment Services Division does not fully utilize its fleet management software system, which would provide data to improve efficiency. City agencies do not pay for vehicle repairs, maintenance, or service, which leaves little incentive to properly operate or promptly replace older vehicles. The division also takes an inordinate amount of time to return passenger vehicles back into service, prompting one city agency to take its passenger vehicle repair and maintenance work to private service providers.

Finding 1: The City's Fleet Management Purchasing Practices are Fragmented and Lack Accountability

- We found that the city lacks a formal fleet management plan. A fleet management plan identifies key vehicle management areas such as administration, acquisition, maintenance, replacement, and reporting requirements. Many jurisdictions around the country, at all levels of government, have established fleet management plans.
- We found that passenger-type vehicle purchase decisions are decentralized and subject to weak oversight.
 - Requesting agencies have wide discretion in the make, model, and type of vehicles that are purchased.
 - Budget and fiscal services primarily ensures that city agencies have adequate funding and puts vehicle purchases out to bid. However, beyond adequacy of funding, the department applies little other criteria when evaluating the vehicle purchase.
 - Automotive Equipment Services Division, which is responsible for planning, directing, and administering all program and activities associated with the maintenance and repair of city vehicles, serves as a technical adviser only during the vehicle purchasing process. Neither the division nor budget and fiscal services limits or controls make, model, or type of vehicle purchased.
 - The lack of a vehicle acquisition policy results in a diverse passenger vehicle fleet comprised of 11 different manufacturers, 8 vehicle types, ranging from sedans to SUVs and pickup trucks, and 116 different models.
 - The city's passenger vehicle fleet grew over 13 percent between FY2005-06 to FY2007-08, from 837 passenger vehicles, to 949 passenger vehicles, respectively.
- We also found that the absence of a vehicle replacement policy results in an aged, inefficient fleet. Many jurisdictions have formal thresholds for when a vehicle should be replaced. The city does not have formal thresholds for vehicle replacement. However, the division's informal replacement guideline is 10 years or 100,000 miles.

- Using the city's unofficial replacement guideline of 10 years or 100,000 miles, we found that the city maintained 411 passenger vehicles that were 10 years or older, or 43 percent of the passenger fleet of 949 vehicles.
- We also found that 185 vehicles, or nearly 20 percent, had accumulated 100,000 miles or more. When considering both benchmarks, we found 161 passenger vehicles, or 17 percent, had accrued 10 years or more *and* 100,000 miles.
- We found that under-utilized vehicles may adversely impact fleet efficiency. Some jurisdictions have minimum use standards to justify keeping a vehicle in use. The city does not have a formal minimum-use standard for passenger vehicles. However, informally, the Automotive Equipment Services Division suggests that city passenger vehicles should be driven at least 5,000 miles annually. Based on this unofficial standard, we found that 299 of the 949 passenger vehicles under the facility maintenance department's jurisdiction had an average annual mileage accrual below 5,000 miles. This represents 31.5 percent of the passenger vehicle fleet.
- Additionally, we found that dedicated funding for vehicle replacement is lacking. Fleet management best practices recommend establishing a replacement reserve or other dedicated funding to ensure timely replacement for vehicles. The city does not have dedicated funding for vehicle replacement.
- We also found that the city council's intent to purchase fuel-efficient vehicles is not fully enforced. In June 2006, the council adopted Resolution 06-176, urging the administration to purchase hybrid vehicles or vehicles with mileage ratings of 40 or more miles per gallon for the city's fleet.
 - The integration of hybrid vehicles into the city's fleet has been delayed. The study of six hybrid vehicles, which was originally scheduled for completion in June 2008 as established by the mayor's sustainability plan, experienced delays and was scheduled to be completed in June 2009.
 - The city lacks a mechanism to ensure purchase of fuel-efficient vehicles. The resolution called for the purchase of vehicles with ratings of 40 miles per gallon or higher, but there is no criteria in the purchasing process to ensure that this standard, or any other more reasonable standard, is

achieved. As a result, in 2007 and 2008, we found that the city purchased 25 SUVs with fuel ratings ranging from 14 to 23 miles per gallon.

Finding 2: The City's Fleet Management Operations Practices Result in an Inefficient Fleet That is Inconsistent with Fleet Management Best Practices

- We found that the city's policy that allows city employees to take home city-owned vehicles is inadequate and unenforceable. Section 105-1 through 105-10, HRS, establishes restrictions governing the use of city-owned vehicles. Mayor's Directive 05-06 incorporates the statute's restrictions in establishing the city's policy on take-home vehicles. Budget Form 96, *Request for Personal Use of City Vehicle*, is evaluated and approved by the Department of Facility Maintenance, Department of Budget and Fiscal Services, and the mayor. Neither the Department of Budget and Fiscal Services nor Department of Facility Maintenance effectively monitors which employees have take-home vehicle authority.
 - Between 2000 and 2005, the city had no record of who requested take-home vehicle privileges or who was authorized to take home city-owned vehicles.
 - We found that as of the end of FY2007-08, only 4 city employees were authorized to take home a city-owned vehicle. However, 29 unauthorized city employees may be taking home city-owned vehicles. Facility maintenance denied their requests in June 2006, but, pending appeal, employees may be taking these vehicles home.
 - The facility maintenance department lacks authority over take-home vehicles and cannot enforce its decisions to stop employees from taking home vehicles. The department's appeals process has not resulted in a final resolution to the requests.
- The former director of the environmental services department and design and construction deputy director took home city-owned vehicles in violation of city ordinance. Section 2-28.2, Revised Ordinances of Honolulu, prohibits an executive agency head or deputy head from taking home a city-owned vehicle, except for the police chief and deputy police chief, fire

chief and deputy fire chief, medical examiner and deputy medical examiner and the civil defense agency administrator.

- City agencies are allowing city employees to take home city-owned vehicles without proper authorization. At least three city agencies we spoke with allow employees to take home city vehicles without filing authorization requests through Budget Form 96.
- Budget and fiscal services is not properly assessing taxable benefits for employees with take-home vehicle privileges. Department policy 04.15 titled, *Tax Liability for Use of City-Owned Vehicles*, based on IRS guidelines, assesses a \$3.00 per day, or \$678 annual taxable benefit for employees taking home city vehicles.
 - We found that as of November 2008, the city was assessing a taxable benefit to 10 employees, even though, according to facility maintenance records, at least 29 people may have been taking home city vehicles at that time.
 - Of the four employees authorized by facility maintenance to take home a city-owned vehicle, only two are being properly assessed for taxable benefits.
- We also found that Automotive Equipment Services Division does not fully utilize its fleet management software system. The division estimates that it uses only 70 percent of its *FleetFocus M5 Fleet Management System* software capabilities. There are many reports that can be generated, but the division does not always do so. Additionally, we found that inaccurate data is collected, maintained, and reported by the system. During fieldwork we discovered a discrepancy in how the system calculates labor hours per work order. Division staff contacted the system vendor on the mainland for an explanation and the vendor acknowledged that a glitch existed and that it would be corrected in the upgraded version of the software. Inaccurate data may be collected since some fueling cites rely on manual inputs, which cannot be verified.
- We found that city agencies generally do not pay Automotive Equipment Services Division for vehicle repair, service, and maintenance. Under current practice, once city agencies take possession of their vehicles, they generally do not pay for vehicle repair, service or maintenance—automotive equipment services budgets for, and pays for, vehicle upkeep.

Thus, there is no incentive for agencies to properly maintain or replace a vehicle in a timely manner.

- We found that passenger vehicle downtime at Automotive Equipment Services Division is excessive. Some agencies we spoke with expressed concern over the length of vehicle downtime spent at the division's yard. Analysis of a random sample of passenger vehicles serviced by the division between FY2005-06 and FY2007-08 revealed that the division kept passenger vehicles an average of 14 calendar days per work order, while spending an average of 3.6 hours on actual labor. An average of 97.7 percent of the time each vehicle spent at the division was for non-labor.
- The Department of Environmental Services sends some of its passenger vehicles to outside vendors for repair, maintenance and service. Since May 2006, the Collections Division has sent its 60-70 passenger vehicles to private vendors and paid for the services from its operating funds.
 - The Department of Environmental Services and Department of Facility Maintenance entered into a service level agreement to address liability issues. In 2004, a service level agreement was agreed to by the departments which sought to improve service and communication between the departments.
 - To date, the service level agreement between the departments has not been fully met. Reports requested by environmental services have not been provided by automotive equipment services. Integration of environmental services' software system with facility maintenance's software system has not yet been completed.

Recommendations and Response

We made several recommendations to improve the city's passenger vehicle purchasing and operations management practices. We recommended that the mayor consider aligning all management responsibilities for the city's fleet of vehicles, including passenger vehicles, under a single entity. We also suggested consideration to require agencies to justify passenger vehicle purchases that do not meet the intent of Resolution 06-176. Additionally, we suggested the administration work with corporation counsel to resolve union-related and other

outstanding issues that will allow the city to effectively enforce its take-home vehicle policy and to work with the Departments of Budget and Fiscal Services and Facility Maintenance to establish a proposal for dedicated funding for the purchase of replacement passenger vehicles.

We recommended that the Department of Facility Maintenance establish a formal, comprehensive fleet management plan to include possible standardized fleet specifications, replacement policies, benchmarks, vehicle evaluation requirements, and other fleet management industry-recommended best practices. We also suggested that the department prepare annual reports that contain appropriate vehicle analyses, work with the administration to definitively identify city employees taking home city-owned vehicles and update the list annually until employee appeals are resolved, and enforce requirements that all city employees with take-home vehicle privileges submit their Budget Form 96 authorization requests. We also recommended that the department prepare a feasibility study for implementing a *chargeback system* that places the repair and maintenance responsibility on individual city agencies and to utilize all appropriate *FleetFocus M5 Fleet Management System* capabilities. Furthermore, we recommended working with the mayor to consider sending certain, or all, passenger vehicle repair and maintenance to private sector vendors. If automotive equipment services continues to service passenger vehicles, the department should establish appropriate standards for vehicle turn around time and minimize downtime. Finally, we recommended that the facility maintenance department survey city agencies annually to obtain customer feedback to improve services, and comply with the terms of its service level agreement with the environmental services department.

We recommended that the Department of Budget and Fiscal Services coordinate with the Department of Facility Maintenance to identify all employees with take-home vehicle privileges via Budget Form 96 and assess appropriate taxable benefits. We also recommended that the department research the tax implications for the intermittent take-home use of a city-owned vehicle and, as necessary, establish guidelines for intermittent use of take-home vehicles by city employees.

In response to our draft report the Departments of Facility Maintenance and Budget and Fiscal Services expressed general agreement with our audit findings and recommendations. The agencies also offered clarifying information, updated programs and activities related to fleet management, and other comments.

We acknowledge the additional information provided by the agencies, but stand by our audit findings.

Additionally, the agencies expressed concerns over our audit scope and omission of steps the departments have recently taken to address many of our audit findings. First, the agencies expressed concern that the premise for conclusions and recommendations found in the report is the result of data limited only to passenger vehicles and not the entire fleet. While we acknowledge the departments' concerns, our audit scope clearly states that we selected passenger vehicles for this review because of the wide discretion city agencies have in purchasing passenger vehicles and that passenger vehicles are at greatest risk for abuse. Our audit findings and recommendations specifically cite application to passenger vehicles only, with the possible exception of a citywide fleet management plan that could benefit all city vehicles, including passenger vehicles. Furthermore, since the departments did not refute our findings that the city's passenger vehicle fleet grew over the three-year review period or that downtime for passenger vehicles is excessive, we stand by those findings.

Second, the departments expressed concern that the audit report did not acknowledge the steps the city has already taken to address many of the report's findings. We recognize and commend the city for taking initiative to improve passenger vehicle procurement. We note, however, that our audit scope identifies our review period as passenger vehicles under the jurisdiction of the Department of Facility Maintenance for the period FY2005-06 to FY2007-08. The program and procedural improvements cited in the departments' response were not applicable to our review period and, thus, were not included in the audit report.

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Chapter 1

Introduction

This audit was conducted pursuant to the authority of the Office of the City Auditor, as provided in the Revised Charter of Honolulu. The audit was included in the office's Annual Workplan for FY2008-09, which was sent to the mayor and Honolulu City Council in June 2008.

The Automotive Equipment Services Division, Department of Facility Maintenance, reported that the city owned 2,218 city vehicles and motorized equipment in FY2006-07, valued at \$348,002,191. Given the significant value of these assets, its potential for abuse, and the rising cost of fuel, it is essential that the city examine its fleet maintenance operations to ensure that it is operating efficiently and effectively. To date, the city has not conducted a comprehensive assessment of its fleet of vehicles. While the city operates a variety of motor vehicles ranging from golf carts to garbage trucks and, collectively, represent a significant investment by city taxpayers, this audit focused on the 949 passenger-type vehicles under the Department of Facility Maintenance's jurisdiction as of the end of FY2007-08. Passenger vehicles include sedans, station wagons, sport utility vehicles (SUV), vans, pickup trucks, crewcab trucks, utility trucks, and mini buses. Our office opted to review passenger-type vehicles because city agencies have wide discretion in the variety of vehicle makes, models, and types to purchase, and because passenger vehicles are at greatest risk for abuse.

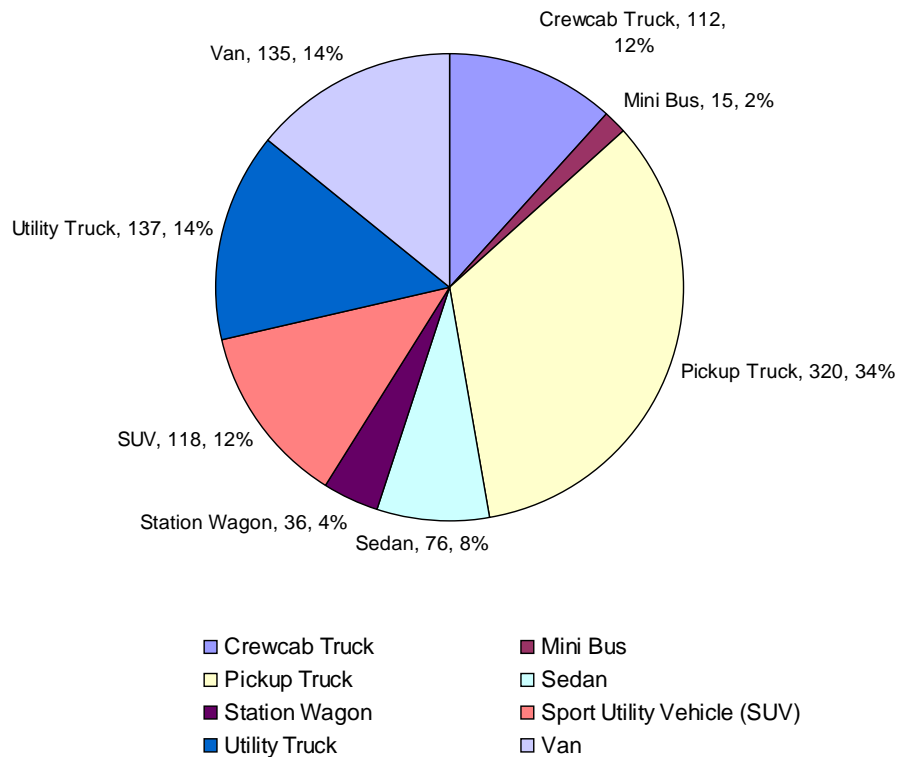
Background

The city's fleet of 949 passenger vehicles is comprised of many makes, models and types. Vehicles that enter the fleet are requested by individual city agencies, with the approval of the Department of Budget and Fiscal Services and Department of Facility Maintenance. The Department of Budget and Fiscal Services verifies that departments have sufficient funds for passenger vehicle purchases. The Department of Facility Maintenance's Automotive Equipment Services Division is responsible for managing the city's fleet of passenger vehicles. The division's budget to repair, service and maintain the fleet is derived from five different funds. The division uses a state-of-the-art fleet management system to monitor and manage the fleet.

City's fleet of passenger vehicles is comprised of many makes, models, and types

As of August 2008, the city's fleet of passenger vehicles under the facility maintenance department's jurisdiction was comprised of 949 vehicles. The passenger vehicle fleet is divided among eight different classes: crewcab trucks, mini buses, pickup trucks, sedans, station wagons, sports utility vehicles, utility trucks, and vans. Pickup trucks, which number 320, are the most common class of vehicle in the city's fleet, and represent a little over one-third of passenger vehicles managed by the facility maintenance department. Exhibit 1.1 shows the distribution of vehicle classes among the city's fleet of passenger vehicles.

**Exhibit 1.1
City Passenger Vehicles by Class, FY2007-08**



Source: Department of Facility Maintenance

Exhibit 1.2
Photo of 2002 Ford Escape

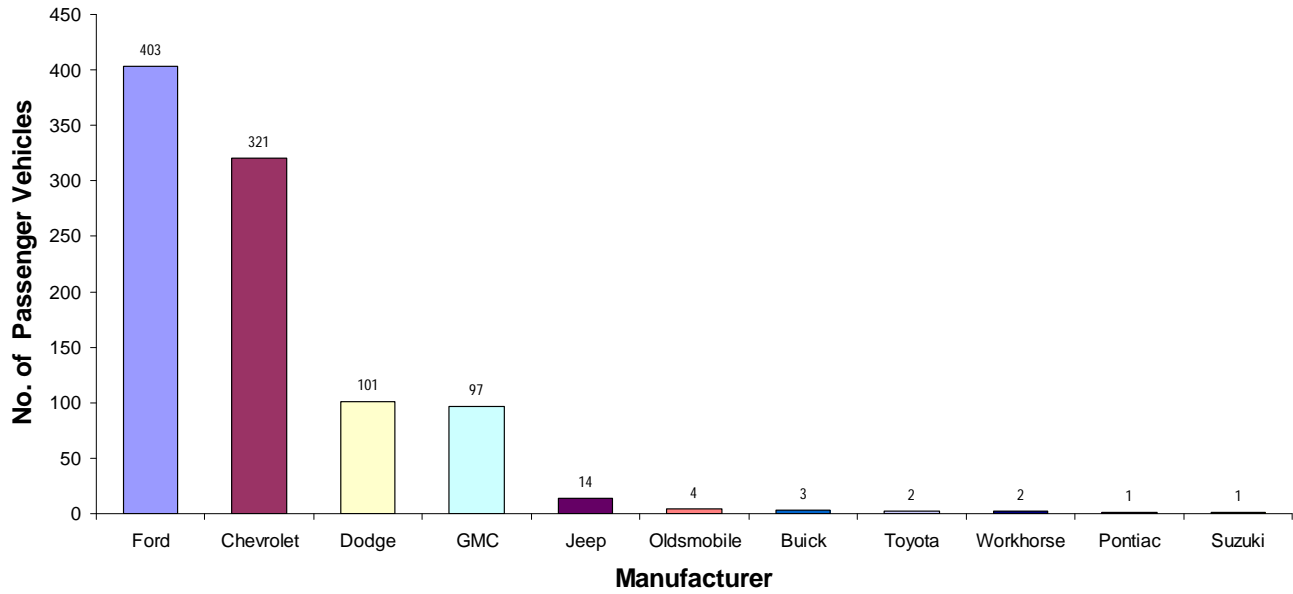


This 2002 Ford Escape SUV, operated by the Environmental Services Department, is one of 118 SUVs in the city's passenger vehicle fleet as of August 2008. SUVs represent 12 percent of the city's 949 passenger vehicle fleet.

Source: Office of the City Auditor

The city's passenger vehicle fleet is also distributed among 11 different manufacturers. The most common manufacturer is *Ford*, which comprises 42 percent of the passenger vehicles under facility maintenance department's jurisdiction. *Pontiac* and *Suzuki* each have one vehicle in the city's fleet. Exhibit 1.3 displays the distribution of vehicle manufacturers among the city's fleet of passenger vehicles.

Exhibit 1.3
City Passenger Vehicles by Manufacturer, FY2007-08



Source: Department of Facility Maintenance

The 949 passenger vehicles in the city’s fleet is dispersed among 20 city departments and agencies. The departments with the most passenger vehicles are environmental services, facility maintenance, and parks and recreation. Exhibit 1.4 shows the distribution of passenger vehicles among city departments and agencies.

Exhibit 1.4
Distribution of Passenger Vehicles by City Agency, FY2007-08

	<i>Department/Agency</i>	<i>No. of Passenger Vehicles</i>	<i>Percent of Passenger Vehicle Fleet</i>
1	Department of Environmental Services	267	28.1%
2	Department of Facility Maintenance	254	26.8%
3	Department of Parks and Recreation	219	23.1%
4	Honolulu Emergency Services Department	56	5.9%
5	Department of Design and Construction	28	3.0%
6	Department of Transportation Services	27	2.8%
7	Department of Enterprise Services	23	2.4%
8	Department of Budget and Fiscal Services	15	1.6%
9	Department of Planning and Permitting	13	1.4%
10	Customer Services Department	9	0.9%
11	Department of Community Services	9	0.9%
12	Prosecuting Attorney's Office	6	0.6%
13	City Clerk's Office	5	0.5%
14	Medical Examiner Department	5	0.5%
15	Department of Information Technology	4	0.4%
16	Department of Emergency Management	3	0.3%
17	Department of Human Resources	2	0.2%
18	Royal Hawaiian Band	2	0.2%
19	Office of the Mayor	1	0.1%
20	Office of the Managing Director	1	0.1%
	Total	949	100.0%

Source: Department of Facility Maintenance

In FY2005-06, the city purchased 60 passenger vehicles at cost of \$2,180,183. The city purchased an additional 64 passenger vehicles in FY2006-07 and expended \$1,803,765. In FY2007-08, a total of 24 passenger vehicles were purchased for \$652,001. Exhibit 1.5 illustrates these figures.

Exhibit 1.5
Passenger Vehicle Purchases, FY2005-06 to FY2007-08

	<i>FY2005-06</i>	<i>FY2006-07</i>	<i>FY2007-08</i>
No. of Vehicles Purchased	60	64	24
Total Cost	\$2,180,183	\$1,803,765	\$652,001

Source: Department of Budget and Fiscal Services

Passenger vehicle purchase process starts with the requesting agency

The process for purchasing a passenger vehicle begins with the individual city agency. A city agency will make a formal equipment purchase request to budget and fiscal services through the *City and County of Honolulu Enterprise Resource Planning System (CHERPS)*. Budget and fiscal services ensures that the requesting agency has adequate funds for the purchase and manages bids. The request is then forwarded to the facility maintenance department's Automotive Equipment Services Division for vehicle specification approval. Upon approval, the request is returned to budget and fiscal services and the purchase is put out to bid. Whenever possible, budget and fiscal services will try to bundle vehicle requests from various city agencies in order to benefit from bulk purchase discounts. Automotive Equipment Services Division takes delivery of vehicles, inspects them to ensure compliance with bid specifications, and releases the vehicle to the requesting agency.

Department of Budget and Fiscal Services' responsibilities

The Department of Budget and Fiscal Services is the central budgeting and accounting agency for the City and County of Honolulu. Among its responsibilities are long-range financial planning, managing the city's operating and capital improvement budgets, managing the city's revenue and disbursement activities and financial records, overseeing equipment inventories, and administering the city's centralized purchasing activity.

The department's divisions related to passenger vehicles are:

1. **Purchasing Division.** The Purchasing Division is responsible for procuring all materials, supplies, equipment and services for city departments and agencies, including passenger vehicles. It also maintains an inventory of all city personal property to effect exchange, disposal, sale, or transfer of

surplus equipment. In FY2005-06, FY2006-07, and FY2007-08, the city purchased 119, 119, and 82 motor vehicles (passenger and non-passenger), respectively.

2. **Property Management and Disposal Section.** This section maintains the city's real and personal property inventories, and manages and disposes of the city's real and personal property when needed. The city's personal property inventory, which includes equipment, machinery, and supplies and materials, is maintained on the CHERPS. At the end of FY2006-07, the department recorded motor vehicle assets totaling \$348,002,191. In FY2006-07, the section retired assets, valued at \$26.4 million, which included trucks, handi-vans, and police vehicles. Assets transferred between city agencies, valued at \$85.1 million, included personal computers, office equipment, and motor vehicles.
3. **Division of Fiscal/CIP Administration.** This program is responsible for overseeing citywide financial planning and analysis, and the formulation, review, preparation and implementation of the annual Capital Program and Budget. It also administers the U.S. Department of Housing and Urban Development's Community Development Block Grant, HOME Investment Partnerships, Emergency Shelter Grant and Housing Opportunities for Persons with AIDS programs to ensure proper program management, timely completion of projects, and continued compliance with program mandates. Since 1998, most city motor vehicles have been purchased with Capital Improvement Program (CIP) funds.
4. **Division of Budgetary Administration.** This program provides centralized budgetary services, which include the preparation and administration of the annual operating budget. It formulates and administers budgetary policies consistent with administration objectives. It also evaluates the effectiveness of individual program activities in achieving its goals and mandates and provides organizational and budgetary review of city programs and activities. This division assists agencies in formulating equipment priorities and enforces procurement guidelines in purchasing city vehicles.

Department allocates funds for vehicle purchases

The budget department's role in the city's fleet management program begins when a requesting city agency submits a request through the CHERPS. Generally, budget and fiscal services does

not have the technical expertise to evaluate motor vehicle specifications. The department relies on the Automotive Equipment Services Division to approve vehicle specifications. Whenever possible, the department tries to bundle motor vehicle purchases from various agencies and take advantage of bulk discounts from vendors. Upon confirming the availability of funds and approval from automotive equipment services, the department will put the motor vehicle request out to bid in accordance with procurement laws. Budget and fiscal services' main concern is the availability of funds and that vehicle specifications allow the city to properly obtain bids from vendors.

The city uses primarily CIP funds to purchase motor vehicles

In FY2007-08, motor vehicles were purchased using cash from the Capital Improvement Program budget. In FY2005-06 and FY2006-07, vehicles were purchased with CIP bond financing. Prior to 1998, the city paid cash for motor vehicle purchases. The change in motor vehicle financing occurred in July 2006 with the passage of Resolution 06-222. The resolution established that capital costs funded in the capital budget shall be limited to costs that do not recur annually, which include equipment having a unit cost of \$5,000 or more and estimated service life of five years or more, except for equipment funded with cash from the sewer fund.

Department of Facility Maintenance manages the city's fleet of passenger vehicles

In addition to managing the city's fleet of passenger vehicles, the Department of Facility Maintenance plans and administers, among other things, city buildings, vehicles, and construction equipment except for certain units belonging to the Board of Water Supply, police, and fire departments. The department also administers programs for mechanical, electrical, and electronic equipment and facilities.

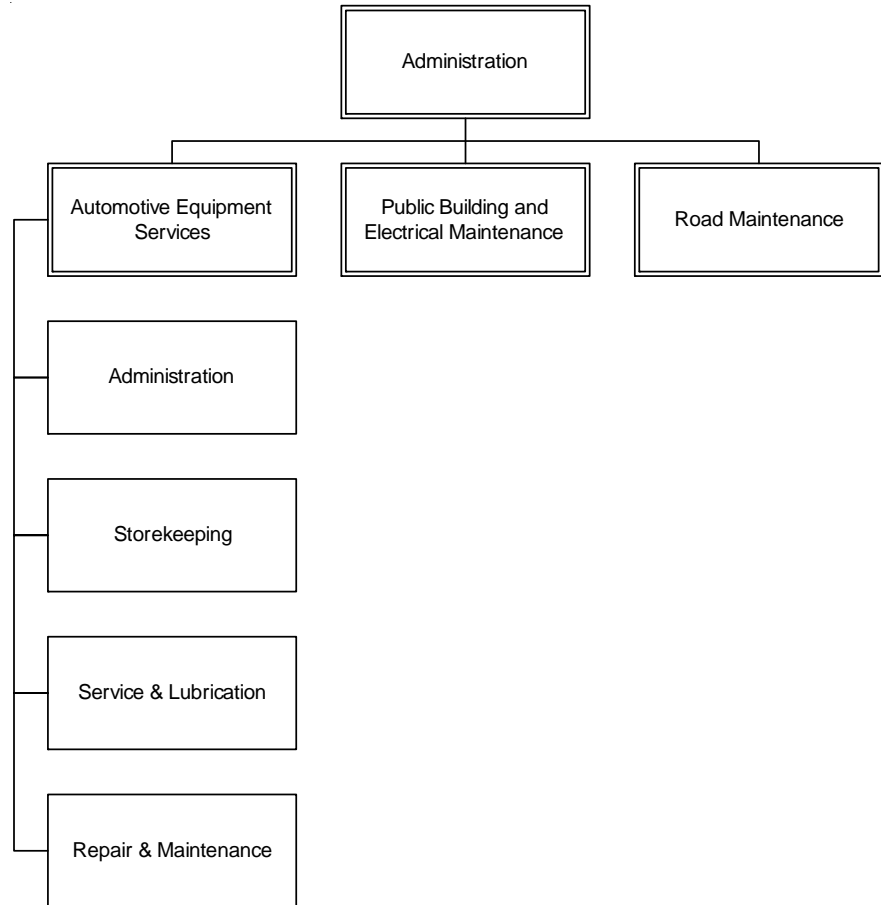
Among its goals and objectives are:

- Use environmentally friendly vehicles such as hybrid vehicles, bio-diesel fuel, and energy efficient lighting to reduce harmful emissions to the environment, and to reduce reliance on fossil fuel.
- Staff and organize core programs to support planning, development, and execution of comprehensive preventive and predictive maintenance programs for roads, equipment/vehicles, buildings, streetlights, and appurtenances.

- Minimize *downtime* of vehicles and equipment requiring repair work. Perform interim repairs until parts arrive and/or workload allows for complete repair; improve early defect detection by enhancing preventive maintenance; increase efforts to perform repairs when equipment is inactive and establish timely vehicle/equipment replacement schedule to reduce major repair costs.
- Increase efficiency with an effective automated fleet maintenance and repair tracking system.

The department is organized into three major divisions: Automotive Equipment Services, Public Building and Electrical Maintenance, and Road Maintenance. The department's organizational chart is depicted in Exhibit 1.6.

Exhibit 1.6
Department of Facility Maintenance Organization Chart



Source: Executive Program and Budget, City and County of Honolulu, Fiscal Year 2008 and Department and Agency Reports of the City and County of Honolulu, Fiscal Year July 1, 2006 to June 30, 2007

Automotive Equipment Services Division maintains and repairs motor vehicles

The Automotive Equipment Services Division, under the Department of Facility Maintenance, is responsible for planning, directing, coordinating, and administering all programs and activities associated with the maintenance and repair of the automotive, heavy vehicle, and construction equipment fleets of most city departments and agencies (with the exception of the Honolulu Fire Department, Honolulu Police Department, and Board of Water Supply). Exhibit 1.7 details the vehicles under the division's jurisdiction.

Exhibit 1.7**City-owned Vehicles Under the Jurisdiction of the Automotive Equipment Services Division, FY2005-06 to FY2007-08**

	<i>FY2007-08</i>	<i>FY2006-07</i>	<i>FY2005-06</i>
No. On-road/highway vehicles	Not reported*	1,510	1,741
No. Off-road/non-highway equipment	Not reported*	132	129
No. Misc. equipment (trailers, fork lifts, compressors, generators, etc.)	Not reported*	576	591
Total vehicles	Not reported*	2,218	2,461
Value of city-owned motor vehicles **		\$348,002,191	\$322,785,489

* Not reported as of July 2008

** Includes all motor vehicles owned by the city, including Honolulu Police Department, Honolulu Fire Department, and the Honolulu Board of Water Supply

Source: City and County of Honolulu, Executive Operating Program and Budget

In FY2007-08, the department reported an inventory of 949 passenger-type motor vehicles. They include crewcab and pickup trucks, sedans, station wagons, sport utility vehicles, utility trucks, vans, and mini buses.

The division is organized into four activity areas:

- 1. Administration.** This activity is responsible for all preventive maintenance and inspection scheduling, production control, work order data processing and review, quality assurance, disposal of replaced vehicles and equipment, and is the primary custodian of the city's computerized fleet management system.
- 2. Storekeeping.** Responsible for the acquisition, storage, issuance, and disposal of tools, equipment, replacement parts, accessories, general supplies, and solicitation of private contract equipment and vehicle repair services for the entire division.

3. **Service and Lubrication.** Provides fueling, tire repair/ replacement and maintenance, lubrication, and cleaning of all equipment supported by the division.
4. **Repair and Maintenance.** Serves as the division's major operational activity. Repair and maintenance shops include: Halawa Automotive Repair Shop, Construction Equipment Repair Shop, Welding Shop, Body and Fender Shop, Pearl City Automotive Repair Shop, Kapa'a Automotive Repair Shop, and the newly created Light Equipment Repair Shop.

Automotive equipment services' budget is derived from five different sources

The division derives its budget from five different sources: General Fund, Highway Fund, Sewer Fund, Refuse Solid Waste Fund, and Refuse Recycling Account Fund. In FY2005-06, the division had a budget of nearly \$14.2 million. In FY2007-08, the division's budget increased 15.3 percent to almost \$16.4 million. Exhibit 1.8 shows the automotive equipment services division's budget for FY2005-06 to FY2007-08.

Exhibit 1.8
Automotive Equipment Services Division Annual Budgets, FY2005-06 to FY2007-08

<i>Fund Source</i>	<i>FY2005-06</i>	<i>FY2006-07</i>	<i>FY2007-08</i>
General Fund (110)	\$3,575,249	\$3,165,600	\$3,560,146
Highway Fund (120)	\$1,907,590	\$2,336,129	\$2,698,179
Sewer Fund (170)	\$1,585,321	\$1,888,877	\$1,657,347
Refuse Solid Waste Fund (250)	\$3,672,249	\$7,038,331	\$6,739,297
Refuse Recycling Account Fund (259)	\$3,434,742	\$1,215,997	\$1,695,906
Total	\$14,175,151	\$15,644,934	\$16,350,875

Source: Automotive Equipment Services Division, Department of Facility Maintenance

The division uses a state-of-the-art fleet management system

Automotive equipment services employs the *FleetFocus M5 Fleet Management System* for managing the city's automotive fleet. This software application is a web-based system that is capable of tracking and reporting vital vehicle information such as accounting, performance and repairs, maintenance histories, location assignment, operating data, fuel usage, warranties, and

downtime. The system, which is used by 35 city municipalities in California and locally by Hawaiian Electric Company and Maui Pineapple, aims to significantly reduce maintenance expenditures and inventory carrying costs, streamline operations and improve vehicle utilization, reduce asset ownership costs, improve warranty recovery, enhance productivity, efficiency, and customer satisfaction, and improve operations and maintenance practices.

Automotive equipment services provides technical assistance to city agencies that purchase passenger vehicles

In addition to maintaining and repairing passenger vehicles, automotive equipment services provides technical assistance to city agencies by developing vehicle specifications that are commensurate with current industry inventory and can be competitively bid. Under current procurement requirements, the city generally obtains competitive bids for purchases exceeding \$5,000. The division does not select vehicle model, make, or class; the division's primary responsibility in purchasing a passenger vehicle is to ensure that vehicle specifications can be competitively bid.

Select Initiatives Established by the Council and Administration Between FY2005-06 and FY2007-08 that Impact the City's Fleet of Passenger Vehicles

Resolution 06-176 asks the administration to consider purchasing fuel-efficient vehicles

Between FY2005-06 and FY2007-08, the city council and city administration established initiatives that impact the city's fleet of passenger vehicles. Resolution 06-176 urged the city administration to purchase hybrid and other fuel-efficient vehicles. The mayor's sustainability plan, *21st Century Ahupua'a*, outlined sustainability goals related to fuel and transportation. Mayor's Directive 05-06 issued policies and procedures for city employees taking home city-owned vehicles.

In June 2006, the city council adopted Resolution 06-176. Through this resolution, the council urged the city administration to purchase hybrid vehicles or vehicles with mileage ratings of 40 or more miles per gallon of gasoline for the city's vehicular fleet, except for vehicles purchased and used by public safety agencies. The Department of Budget and Fiscal Services testified in support of the measure.

The mayor's 21st Century Ahupua'a sustainability initiative seeks to utilize alternative fuels and eco-friendly vehicles

In September 2005, the budget and fiscal services department convened various city departments to address rising fuel oil prices and its impact to the city's operating budget, which became the Energy Issues Committee. The committee's objective was to brainstorm energy reducing initiatives to offset the city's increasing energy costs. In early 2007, the committee evolved into the Mayor's Energy and Sustainability Task Force to develop a ten-year plan to make the city even more energy efficient and sustainable. The task force issued the city's sustainability plan, which incorporates the mayor's vision for the *21st Century Ahupua'a*.

The plan's objective related to fuel and transportation include:

- Acquire six hybrid vehicles for the city's fleet for use and evaluation by June 2008.
- Install a tire pressure monitoring system on all city fleet vehicles as part of standard equipment by 2009.
- Establish vehicle usage guidelines to minimize the amount of fuel consumed by city operations by June 2008. Update and re-issue guidelines on an annual basis so message is not forgotten.

Mayor's Directive 05-06 reissues guidelines for personal use of city-owned vehicles for travel between work and home

In September 2005, the administration issued Mayor's Directive 05-06 to all department and agency heads, which addressed the personal use of city and county vehicles for travel between work and home. The directive applied to all executive branch employees, except the mayor and employees of the police department, fire department, and water supply board, who are exempt by state law. Through this directive, the mayor emphasized that except for special circumstances, it was unlawful for employees to use city vehicles for personal use, which included travel between work and home. Authorization to take home a city-owned vehicle would be based on the written recommendation of the budget and fiscal services director, and the prior review and recommendation of the facility maintenance director. The directive set forth the criteria used by the evaluating departments.

When an agency head believes an employee should be authorized the use of city-owned vehicle in accordance with the provisions of directive 05-06, a *Request for Personal Use of City Vehicle*, Budget Form 96, shall be submitted to the facility maintenance

department. Authorization for the personal use of a city-owned vehicle for travel between work and home would be granted on a fiscal year-to-year basis, and shall expire at the end of each fiscal year. Budget Form 96 would be required by June 1 of each year, for the ensuing fiscal year beginning July 1.

Audit Objectives

1. Review and assess select passenger vehicle fleet management purchasing practices.
2. Review and assess select passenger vehicle fleet management operations practices.
3. Make recommendations as appropriate.

Scope and Methodology

We focused our review and analysis on select management practices related to passenger-type vehicles under the jurisdiction of the Department of Facility Maintenance for the period FY2005-06 through FY2007-08. We did not examine fuel costs or consumption related to the passenger vehicle fleet. We reviewed passenger vehicle purchase order data on file with the Department of Budget and Fiscal Services, and other data maintained by the CHERPS system for the same three-year period, and interviewed personnel from the purchasing, budget and administration, fiscal/CIP administration, and payroll divisions. We also reviewed passenger vehicle data maintained by the Department of Facility Maintenance's *FleetFocus M5 Fleet Management System* database for the period FY2005-06 to FY2007-08 and interviewed division administrators and staff. We also studied the department's records, policies, and procedures for take-home vehicles. Additionally, we examined the management practices, policies, procedures, and internal controls, and interviewed staff, from the Customer Services Department, Department of Transportation Services, Department of Environmental Services, and the city's motor pool. Furthermore, we tested a sample of vehicle purchases, service, repairs, and use for compliance with applicable city charter, ordinance, policies, and procedures. We also conducted a site visit to facility maintenance department's vehicle repair shop in Halawa. Finally, we compared the city's management of passenger vehicles against industry best practices and practices of other government jurisdictions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Chapter 2

Effective Management of the City's Passenger Vehicle Fleet is Hampered by Fragmented Operational Practices and Ineffective Organizational Structure

At the end of FY2007-08, the City and County of Honolulu maintained 949 passenger vehicles in its overall fleet. These vehicles play an important role in the city's ability to provide services to the citizens of O'ahu. During difficult economic times, taxpayers demand efficiency and increased accountability for resources paid for by their tax dollars. We found that the city's fleet management purchasing practices are fragmented and lack accountability, and results in a diverse fleet comprised of 11 different manufacturers, 8 vehicles types, and 116 different models. We also found that the city's fleet management operations practices result in an inefficient fleet that is impacted by take-home vehicle policies that cannot be enforced, a fleet management software system that is underutilized, and excessive vehicle down time for repair and maintenance.

Summary of Findings

1. The city's purchasing practices for passenger-type vehicles are fragmented and lack accountability. The city lacks a formal fleet management plan to guide vehicle purchases and purchasing decisions are decentralized with little oversight by agencies tasked with managing the city's fleet. A significant proportion of the city's fleet is older than 10 years, has accrued over 100,000 miles, or driven fewer than 5,000 miles annually. The city's passenger vehicle fleet grew 13 percent over three years despite a *one-for-one* replacement guideline. Despite a city council resolution supporting fuel efficient vehicles, purchase decisions are made without such consideration. Integration of hybrid vehicles into the city's fleet is delayed.
2. The city's fleet management operations practices and structure result in an inefficient fleet that is inconsistent with fleet management best practices. The city has inadequate and unenforceable controls over vehicles taken home by city employees. The facility maintenance department's Automotive Equipment Services Division does not fully utilize

its fleet management software system, which could provide data to improve efficiency. City agencies do not pay for vehicle repairs, maintenance, or service, which leaves little incentive to properly operate or promptly replace older vehicles. The division also takes an inordinate amount of time to return passenger vehicles back into service, prompting one city agency to take its passenger vehicle repair and maintenance work to private service providers.

The City's Fleet Management Purchasing Practices are Fragmented and Lack Accountability

To assess the city's passenger vehicles purchasing practices we reviewed best practices recommended by professional fleet management organizations and/or best practices identified by other jurisdictions. We also reviewed city administration and city council initiatives aimed at improving fleet efficiency. A number of best practices we identified are commonly incorporated into a formal fleet management plan, which identifies key factors pertaining to fleet purchase, maintenance, and management. We found that the city lacks a formal fleet management plan. And while there are *lead* agencies dealing with aspects of fleet management, individual city agencies have wide discretion in passenger vehicle purchases and use. We also found that the city lacks both a vehicle replacement plan and dedicated funding to support timely replacement. Finally, we found that the council's support for fuel-efficient vehicles is not followed.

The city lacks a formal fleet management plan

The city does not have a formal fleet management plan to guide vehicle purchases. A formal fleet management plan identifies key vehicle management areas such as administration, acquisition, maintenance, replacement, and reporting requirements. The National Association of Fleet Administrators, Inc. recommends that fleet administrators identify key performance indicators for its fleet of vehicles. Key performance indicators are quantifiable measurements, agreed to by stakeholders, which reflect critical business success factors. Another recommended practice is benchmarking, which is the systematic collection and analysis of data used to develop performance measurements. Benchmarking also allows fleet managers to compare costs, internally or externally, against similar or like industries, and can improve performance and establish future goals. Some government jurisdictions around the country have adopted these recommendations. A comprehensive fleet management plan can address all areas of passenger vehicle utilization, including purchasing, operating, and managing a passenger vehicle fleet.

Plan elements that affect purchasing include: 1) a centralized fleet management function; 2) fleet replacement plans for vehicles nearing the end of its useful life; 3) fleet utilization analyses to identify underutilized vehicles; and 4) dedicated funding to support vehicle replacement.

Mohave County in Arizona, for example, established a Fleet Management Plan in June 2005. The plan is designed to provide detailed policies, procedures, and recommendations for improving the administration and operations of the county's vehicle fleet. The plan provides guidelines for fleet consolidation opportunities, the number and type of vehicles used by each department, vehicle acquisition and restrictions, vehicle replacement plan, best practices, fleet and department management responsibilities, low-cost alternative vehicles, and data collection and department reporting requirements.

In September 2003, the Office of Vehicle Fleet Management, State of Texas, also established a comprehensive vehicle fleet management plan that is designed to provide detailed recommendations for improving the administration and operation of the state's vehicle fleet. The plan specifies administrative policy, acquisition policy, including fleet size, vehicle replacement, purchasing restrictions and exemptions, and policies on fleet consolidation, minimum use requirements, replacement, and disposal. Texas' fleet management plan also details fleet reporting requirements and fleet management best practices related to policies and procedures, communications, fleet size, fleet selection, vehicle use, maintenance and repairs, and vehicle disposal and replacement.

The City and County of Honolulu, by comparison, does not have a formal fleet management plan and has not established formal policies, procedures, and benchmarks recommended by fleet management professionals. The following discussion focuses on some of the key elements of a fleet management plan that the city is currently lacking.

Passenger vehicle purchase decisions are decentralized and subject to weak oversight

According to a national fleet management consultant, a well-run municipal fleet operation is administratively centralized to capture economies of scale and features dedicated funding. The city's current framework for purchasing a passenger vehicle is best described as decentralized and subject to weak oversight by the city agencies tasked with evaluating and approving vehicle purchases. City agencies requesting to purchase a passenger vehicle have wide discretion in the make, model, and type of

vehicles that are purchased. Budget and fiscal services' jurisdiction is limited to ensuring that requesting city agencies have adequate funding and procurement. The Automotive Equipment Services Division serves as a technical adviser.

Requesting agencies have wide discretion in the make, model, and type of vehicles that are purchased

City agencies have wide discretion in the make, model, and type of passenger vehicle that they purchase. Under the current process for purchasing a motor vehicle, city agencies make the initial request for a passenger vehicle. We interviewed administrators from three different city departments and none of the departments had any formal policies or procedures for purchasing a passenger vehicle. Rather, the departments generally base purchase decisions based on need. When specifically asked to identify the criteria the department uses to purchase a passenger vehicle, administrators from one department cited operational needs and budget restrictions. Another department noted that it follows the city's vehicle replacement policy and procurement guidelines. Administrators from a third department commented that it, too, followed budget guidelines provided by the budget and fiscal services department and recommendations from automotive equipment services. Thus, each department has wide latitude in the types of vehicles it purchases, relying primarily on budget restrictions.

Budget and fiscal services ensures that city agencies have adequate funding

The budget and fiscal services department's primary responsibility in the passenger vehicle purchase process is to ensure the availability of funds. We asked three separate administrators from the budget and fiscal services department's purchasing, budgetary administration, and fiscal/CIP administration divisions to describe the criteria the department considers when authorizing a vehicle purchase. Their responses included budget considerations and ensuring that proposed purchases are for *replacement* vehicles rather than *new* vehicles. The department defers to the facility maintenance department's automotive equipment services for the technical expertise in developing vehicle specifications. The department also handles bidding and procurement duties in purchasing the vehicles.

Automotive equipment services serves as technical adviser only

The Automotive Equipment Services Division assists city agencies with developing vehicle specifications that can be put out to bid. Division staff review proposed vehicle specifications to ensure that they are commensurate with current model offerings and that there are vehicles available in the marketplace that can meet competitive bidding requirements. When we asked a division administrator to identify the criteria the division uses when evaluating a purchase, the administrator replied that if a purchase can be competitively bid, and the division can service the vehicle, the purchase is likely to go through. However, the division cannot presently limit vehicle manufacturer, make, or model, and if a new vehicle model is purchased then the division is obligated to expand to service the new brand of vehicle.

While budget and fiscal services and automotive equipment services are performing necessary administrative duties related to the purchase of passenger vehicles, what is lacking is a comprehensive evaluation of proposed purchases as it relates to the city's overall fleet. As a result, city departments and agencies have broad authority in the type of vehicles that make up the city's passenger vehicle fleet. The two city agencies tasked with evaluating and approving such purchases use narrow and disparate criteria to evaluate and approve vehicle purchases. Purchases are seemingly scrutinized as individual purchases, based on available funds or agency priorities, rather than how the purchase fits into the city's overall fleet and its ability to properly service, maintain, and repair the vehicle in a cost-effective manner.

Lack of vehicle acquisition policy results in a diverse passenger vehicle fleet

Automotive equipment services administrators acknowledge that the city does not have a formal policy on the manufacturer, model, or type of passenger vehicle that city agencies may purchase. The purchase decision is ultimately determined by the requesting agency. The budget and fiscal services department merely ensures that the requesting agency has adequate funds available. Automotive equipment services serves as a technical adviser to ensure that the specifications for the proposed vehicle acquisition can be competitively bid. As a result, the city's passenger vehicle fleet is comprised of 11 different manufacturers, both foreign and domestic, 8 vehicle types that include sedans, pickup trucks, and SUVs, and 116 different models. For example, the city maintains 35 different passenger vehicle models for

Chevrolet vehicles alone, as explained in Exhibit 2.1. Exhibit 2.2 displays the 22 different models of sedans and Exhibit 2.3 reveals the 14 models of SUVs maintained by the city.

Exhibit 2.1
Inventory of Chevrolet Passenger Vehicle Models, FY2007-08

	<i>Vehicle Make</i>	<i>Vehicle Class</i>	<i>No. of Vehicles in City Fleet</i>
1	Chevrolet 3500	Crewcab Truck	34
2	Chevrolet Colorado	Crewcab Truck	2
3	Chevrolet 3500	Mini Bus	11
4	Chevrolet 1500	Pickup Truck	32
5	Chevrolet 2500	Pickup Truck	31
6	Chevrolet 3500	Pickup Truck	6
7	Chevrolet C30	Pickup Truck	2
8	Chevrolet Custom Deluxe	Pickup Truck	2
9	Chevrolet El Camino	Pickup Truck	1
10	Chevrolet S-10	Pickup Truck	33
11	Chevrolet Caprice	Sedan	1
12	Chevrolet Cavalier	Sedan	5
13	Chevrolet Corsica	Sedan	1
14	Chevrolet Impala	Sedan	1
15	Chevrolet Lumina	Sedan	6
16	Chevrolet Malibu	Sedan	11
17	Chevrolet Cavalier	Station Wagon	3
18	Chevrolet Celebrity	Station Wagon	1
19	Chevrolet Blazer	SUV	29
20	Chevrolet Equinox LS	SUV	2
21	Chevrolet Tahoe	SUV	1
22	Chevrolet Tracker	SUV	4
23	Chevrolet 1500	Utility Truck	9
24	Chevrolet 2500	Utility Truck	28
25	Chevrolet 3500	Utility Truck	13
26	Chevrolet 30	Van	3
27	Chevrolet 1500	Van	3
28	Chevrolet 3500	Van	2
29	Chevrolet Astro	Van	29
30	Chevrolet CP31442	Van	1
31	Chevrolet G10	Van	1
32	Chevrolet Sport	Van	2
33	Chevrolet Uplander	Van	1
34	Chevrolet (Unspecified)	Van	3
35	Chevrolet Venture	Van	8
Total			322

Source: Department of Facility Maintenance

Exhibit 2.2
Inventory of Sedans Operated by the City, FY2007-08

	<i>Vehicle Make</i>	<i>Vehicle Model</i>	<i>No. of Vehicles in City Fleet</i>
1	Buick	Century	2
2	Buick	Park Avenue	1
3	Chevrolet	Caprice	1
4	Chevrolet	Cavalier	5
5	Chevrolet	Corsica	1
6	Chevrolet	Impala	1
7	Chevrolet	Lumina	6
8	Chevrolet	Malibu	11
9	Dodge	Caravan	2
10	Dodge	Charger	1
11	Dodge	Neon	4
12	Dodge	Omni	3
13	Dodge	Shadow	1
14	Dodge	Spirit	1
15	Dodge	Stratus	12
16	Ford	Crown Victoria	2
17	Ford	Escort	2
18	Ford	Focus	7
19	Ford	Taurus	8
20	Oldsmobile	Achieva	1
21	Oldsmobile	Ciera	3
22	Pontiac	LeMans	1
Total			76

Source: Department of Facility Maintenance

Exhibit 2.3
Inventory of Sport Utility Vehicles (SUVs) Operated by the City, FY2007-08

	Vehicle Make	Vehicle Model	No. of Vehicles in City Fleet
1	Chevrolet	Blazer	29
2	Chevrolet	Equinox	2
3	Chevrolet	Tahoe	1
4	Chevrolet	Tracker	4
5	Dodge	Durango	14
6	Ford	Escape	17
7	Ford	Expedition	2
8	Ford	Explorer	26
9	GMC	Jimmy	6
10	Jeep	Cherokee	6
11	Jeep	Liberty	6
12	Jeep	Wrangler	2
13	Suzuki	ATV	1
14	Toyota	Highlander	1
Total			117

Source: Department of Facility Maintenance

An Automotive Equipment Services Division administrator we spoke with acknowledged that the city pays more to service and maintain such a varied fleet. One of the biggest problems is the lack of a *like-for-like-vehicle* replacement practice. For example, if an agency disposes of a sedan and replaces it with an SUV, automotive equipment services will have to stock new parts. Another division administrator commented that the division has considered a standardized fleet that would include only automatic transmission vehicles or vehicles from American manufacturers. The administrators explained, however, that under the current vehicle procurement system, the division cannot limit vehicle manufacturer or type—the division’s role is to ensure that the vehicle specifications can be competitively bid.

A budget and fiscal services administrator we interviewed also considered a standard price list or vehicle manufacturer to potentially save the city money. However, the budget administrator cited limiting factors such as inadequate local competition, the procurement code emphasis on competitive

bidding, and the potential alienation of local distributors. The administrator commented that the department had not adequately examined a price list or alternatives such as sole source purchasing of vehicles to see if they would actually work.

While administrators from both automotive equipment services and the budget and fiscal services department acknowledge that a standardized passenger vehicle fleet has merit, neither has formally analyzed the concept. And although the additional cost of the city's varied fleet is undeterminable, intuitively, the city is incurring extra costs for parts, labor expertise, and administration. The city's current vehicle purchase practices, procurement law, and limited local competition are challenges that should be addressed to ensure the most cost efficient fleet of vehicles.

The city's passenger vehicle fleet grew over 13 percent between FY2005-06 and FY2007-08

Despite an informal policy of no growth, the city's passenger vehicle fleet has continued to grow. Since 2005, the city has had an *informal* policy of no growth in the number of vehicles. In FY2005-06, the facility maintenance department managed 837 passenger vehicles. In FY2006-07 and FY2007-08, the number of passenger vehicles grew to 889 and 949, respectively. Between FY2005-06 and FY2007-08, the city's passenger vehicle fleet grew by 13.4 percent.

The growth of the city's passenger fleet occurred despite automotive equipment services' *guideline* regarding one-for-one vehicle replacements. Under this guideline, city agencies must turn in a vehicle to automotive equipment services for disposal, sale, or reallocation before the receiving agency can receive a new vehicle. At the time of our fieldwork, an automotive equipment services administrator estimated that the size of the city's passenger vehicle fleet has remained flat since 2005, contrary to our findings. We spoke with administrators from three city agencies and all claimed to have followed automotive equipment services' one-for-one vehicle policy. We were unable to identify the reason for the increase in the number of passenger vehicles between FY2005-06 and FY2007-08.

Absence of a vehicle replacement policy results in an aged, inefficient fleet

Many jurisdictions have formal vehicle replacement policies that establish when a passenger vehicle should be replaced. According to the National Association of Fleet Administrators (NAFA) *Fleet Vehicle Policy Development Resource Guide, 2002 Edition*, the purpose of a vehicle replacement policy is to develop and establish a consistent method of replacing vehicles and equipment

in the city fleet that will provide the most efficient and cost effective system. The basic premises of a fleet replacement policy are:

- The fleet is right-sized.
- The fleet is standardized.
- As equipment ages, the maintenance downtime and operational costs increase.
- When vehicles are down for maintenance, productivity decreases.
- Equipment/vehicles that exceed their economic lifespan increase operational costs and decrease resale value.

A leading national fleet management consultant cautions that deferred vehicle replacement increases maintenance expenses and vehicle down time, over-extends maintenance department personnel, and results in higher vehicle lifecycle costs.

The city does not have a formal fleet policy for addressing passenger vehicle replacement. However, an automotive equipment services administrator explained that the division has a general *guideline* that sedans should be replaced after 10 years of service, or 100,000 miles. A division technician we spoke with advised that passenger vehicles should be replaced every 8 years. Sometimes, vehicles may have to be replaced sooner because they are parked outside in and around salt air, which can accelerate the need for replacement. Exhibit 2.4 displays examples of vehicle replacement policies from various jurisdictions.

**Exhibit 2.4
Sample of Vehicle Replacement Policies**

Organization	Vehicle Type	Maximum No. of Years	Maximum No. of Miles
National Association of Fleet Administrators (NAFA)	Staff cars	6	60,000
	Pickups/ vans	8	70,000
Mohave County, AZ	Sedans, light trucks, SUV, vans	6	120,000
State of Texas	Passenger vehicles	6	100,000
U.S. General Services Administration	<8,500 GVW (cars & trucks)	8	85,000
City and County of Honolulu*	Passenger vehicles	10	100,000

*The City and County of Honolulu does not have an official vehicle replacement policy, but has established 10 years and/or 100,000 miles as a guideline for vehicle replacement.

Note: GVW – Gross vehicle weight
SUV – Sport utility vehicle

Source: NAFA, Mohave County, Arizona, State of Texas, U.S. General Services Administration, and Department of Facility Maintenance, City and County of Honolulu

Using the division’s unofficial guideline that passenger vehicles should be replaced after 10 years, we found that as of August 2008, the city maintained 411 passenger vehicles that were 10 years or older, which represents over 43 percent of the city’s 949 passenger vehicles. In one instance, the city maintained a 1970 El Camino pickup truck that accrued 39 years and 152,270 miles. Of the 411 vehicles that were 10 years or older, 75 vehicles, or 18 percent, were 20 years or older.

Based on the division’s unofficial *guideline* to replace passenger vehicles after 100,000 miles, we found that as of August 2008, the city maintained 185 passenger vehicles that had accrued 100,000 miles or more, which represented 19.5 percent of the city’s 949 passenger vehicles. In one instance, the city maintained a 1989 GMC pickup truck that had accrued 302,189 miles. The city also maintained another 8 vehicles that had accrued over 200,000

miles. The average number of miles accrued by the city's 949 passenger vehicles is 60,109 miles.

When considering both informal benchmarks of 10 years of service and 100,000 miles, we found that as of August 2008, the city maintained 161 passenger vehicles that had accrued at least 10 years of service *and* 100,000 miles. This figure represents 17 percent of the city's fleet of 949 passenger vehicles.

An automotive equipment services technician commented that the problem with thresholds is that unless there is a reserve fund available to ensure vehicle replacement, thresholds are ineffective. Just because a vehicle reaches 10 years or 100,000 miles doesn't mean it can be replaced if no funds are set aside. As noted earlier in this report, the city does not have dedicated funding for the purchase of passenger vehicles. Rather, the city's current vehicle purchase policy is based primarily on the priorities of various city agencies and, more importantly, availability of funds.

Nevertheless, automotive equipment services should establish a vehicle replacement policy, as part of a comprehensive fleet management plan, with specific age and mileage benchmarks. It should also advise agencies when their vehicles are nearing replacement thresholds. While mileage and age should not automatically trigger vehicle replacement, the division should more closely monitor vehicle maintenance and repair costs, and salvage value, among others, to truly determine when the investment of city resources is no longer cost effective. This will allow the city to better plan their vehicle purchases and work toward optimum efficiency in its passenger vehicle fleet.

Under-utilized vehicles may adversely impact fleet efficiency

The city does not evaluate fleet vehicle utilization and is unable to assess whether its existing passenger fleet is effectively serving the city's needs. Fleet management best practices recommend establishing minimum-use mileage criteria in order to evaluate fleet efficiency. In 2005, Mohave County, Arizona adopted a 6,000-miles-per-year as the minimum cost effective utilization. Vehicles deemed underutilized would be identified as *excess* and departments would have 45 days to justify maintaining the vehicle. The State of Texas uses annual mileage to determine which vehicles are underused. In most situations, cars or light trucks that are driven less than 11,000 miles per year should be evaluated, reassigned, or sold. The U.S. General Services Administration suggests minimum utilization levels of 4,800 miles per year for passenger vehicles and light trucks.

According to an automotive equipment services administrator, the city does not have a formal minimum-use mileage policy to evaluate and monitor passenger vehicles. However, the administrator suggested that city passenger vehicles should be driven at least 5,000 miles annually in order for the vehicle to be effective and efficient. Using this guideline, we reviewed the annual average mileage accrued for the 949 passenger vehicles under the jurisdiction of the facility maintenance department and identified 299 passenger vehicles that had average annual mileage below the 5,000 mile per-year threshold. This represents 31.5 percent of the total passenger vehicles under the department's jurisdiction and ranged from 21 miles per year for a 2006 Ford Escape to a 2002 Ford Ranger that accrued an average of 4,987 miles per year. Other vehicles with questionable utilization include:

- 1991 Chevy Astro Van with a total of 14,149 miles or an annual average of 832 miles
- 2007 Dodge Durango SUV with a total of 596 miles for the one-year period
- 1990 Dodge Omni Sedan with a total of 26,021 miles or an annual average of 1,446 miles
- 1988 Oldsmobile Ciera Sedan with a total of 49,278 miles or an annual average of 2,464 miles.

Over 30 percent of the city's passenger vehicle fleet may be underutilized. Since the city does not benchmark underutilization, the city may be expending dollars for vehicles that it may not need. While there are obvious exceptions that should be made for emergency and other special circumstance vehicles, and low utilization alone is not sufficient criteria to eliminate a vehicle, monitoring minimum-use benchmarks would provide fleet managers with an opportunity to evaluate whether a vehicle is justified.

Dedicated funding for vehicle purchases is lacking

A private fleet management consulting firm that provides independent, unbiased technical assistance and advice to public and private organizations cautions that the shortage of vehicle replacement money (capital funding) over multiple years has caused fleets to steadily age, which puts pressure on maintenance resources. For public sector fleets, the pressure to defer capital expenditures by postponing the purchase of replacement vehicles

is common. This is especially the case if a fleet depends on appropriations from its agency's general fund instead of a fleet replacement fund. Establishing a replacement reserve or dedicated funding can also ensure the timely replacement of fleet assets. We found that the city does not have dedicated funding or a fleet replacement fund.

Council intent to purchase fuel-efficient vehicles is not fully enforced

In June 2006, the city council adopted Resolution 06-176 urging the city administration to purchase hybrid vehicles or vehicles with mileage ratings of 40 or more miles per gallon of gasoline for the city's fleet, except for vehicles purchased and used by certain public safety agencies. The budget and fiscal services department testified in support of the resolution and automotive equipment services noted that it was in the process of purchasing two hybrid vehicles for study. Since then, we found that the city has not formally followed the resolution's intent to purchase fuel-efficient vehicles and its study of hybrid vehicles has been delayed.

Integration of hybrid vehicles into the city's fleet is delayed

In August 2007, the facility maintenance department reported that it had acquired one hybrid vehicle and replaced 52 older model, gasoline-fueled vehicles and 78 older model, diesel-fueled equipment with newer more fuel efficient models. These replacements represented about six percent of the city's total vehicle fleet. In addition, the Automotive Equipment Services Division noted that the division had finalized specifications for five compact SUV hybrid models for use in its motor pool and planned to advertise for bids. The department cautioned that while the use of hybrid vehicles offered immediate reduction of fuel consumption, its overall impact needs to be considered in conjunction with the associated purchase price and repair and maintenance costs. The department noted that hybrid vehicles are priced higher than their non-hybrid counterparts and it estimated that it would take approximately seven to eight years of fuel savings to recover the initial high cost based on fuel prices at the time. Rather than purchase hybrid vehicles immediately, the facility maintenance department opted to study and evaluate hybrid vehicles. This evaluation is part of the Mayor's Energy & Sustainability Task Force's *21st Century Ahupua'a* sustainability plan that recommended acquiring six hybrid vehicles for the city's fleet for use and evaluation by June 2008.

At the time of our fieldwork, the hybrid vehicle acquisition and study had not been completed. In October 2008, the city acquired five hybrid vehicles, which brought the city's hybrid

vehicle inventory to six vehicles. A facility maintenance department administrator explained that there were production delays with the Ford Escape hybrid vehicles that the city purchased and that these circumstances were out of the city's control. The department estimated that the evaluation of the hybrid vehicles' performance would be completed by June 2009—a one-year delay.

No mechanism in place to ensure purchases of fuel-efficient vehicles

In addition to the purchase of hybrid vehicles, Resolution 06-176 requested that the administration purchase vehicles with fuel efficiency ratings of 40 or more miles per gallon of gasoline for city vehicles. The mayor's sustainability plan draft guidelines for usage of city vehicles also recommends purchasing fuel-efficient vehicles, which include electric, compact or sub-compact, or diesel-fueled vehicles, whenever possible. However, we found no evidence that the city is formally enforcing fuel-efficiency provisions during the budgeting or procurement process.

When we interviewed administrators from the automotive equipment services and budget and fiscal services, none indicated that fuel-efficiency was a criterion for authorizing a vehicle purchase. As noted previously in this report, individual city agencies have broad authority in selecting the type of passenger vehicles purchased. We interviewed administrators from the customer services, environmental services, and transportation services departments regarding vehicle purchase criteria and none of the administrators included fuel efficiency, or Resolution 06-176, as a criteria.

We reviewed a bid proposal abstract on file with the budget and fiscal services department for bids opened in December 2007. One of the bid items was for a compact, four-door sedan. The department received three bids and the estimated fuel consumption ratings for city driving was 22, 23, and 24 miles per gallon, respectively. The winning bid, which had the lowest bid price, also had the highest fuel rating at 24 miles per gallon.

Additionally, we found that in 2007 and 2008, the city purchased 25 sport utility vehicles. Vehicles purchased included Ford Escape, Explorer, and Expedition; Jeep Cherokee and Liberty; and Dodge Durango models. As Exhibit 2.5 reveals, the fuel consumption ratings for these vehicles range from 14 to 23 miles per gallon.

**Exhibit 2.5
Fuel Consumption Ratings for Various SUV Models
Purchased in 2007 and 2008**

	<i>Vehicle Make</i>	<i>Vehicle Model</i>	<i>Model Year</i>	<i>No. of SUVs Purchased</i>	<i>Fuel Rating Range</i>
1	Dodge	Durango	2007	9	14-16 mpg
2	Ford	Escape	2007	3	19-23 mpg
3	Ford	Expedition	2007	1	15 mpg
4	Ford	Explorer	2007	3	15-16 mpg
5	Jeep	Liberty	2007	3	17 mpg
6	Ford	Escape	2008	3	19-24 mpg
7	Ford	Explorer	2008	1	15-16 mpg
8	Jeep	Cherokee	2008	2	12-17 mpg

Note: SUV – Sport utility vehicle

Source: Department of Facility Maintenance and Edmunds.com

While we recognize that vehicles featuring fuel consumption ratings of 40 miles per gallon or higher may be difficult to find, we believe that the spirit and intent of Resolution 06-176 should be considered during the purchase process. Merely deferring to today’s modern vehicles as being *more fuel efficient* than the vehicle it replaced is not sufficient. If the city had a formal fleet management plan, appropriate fuel efficiency monitoring could be implemented and the city could track and quantify actual fuel efficiency.

The City’s Fleet Management Operations Practices Result in an Inefficient Fleet That is Inconsistent with Fleet Management Best Practices

Fleet management best practices and trends in other jurisdictions suggest that fleet managers reconsider allowing employees to take home vehicles, implement and utilize fleet management software, consider a charge back system for repair and maintenance, and ensure fleet reliability through timely vehicle repair and maintenance. We found that the city has made attempts to curb city employees from taking home city-owned vehicles, but is unable to enforce take-home vehicle policies. Moreover the city does not fully utilize its fleet management software system and that it maintains an inefficient system for vehicle repair and maintenance costs. Finally, we found that vehicle down time for passenger vehicle repair and maintenance is excessive.

Policy on use of take-home vehicles is inadequate and unenforceable

One of the trends in cost-effective fleet management practices is to reduce or eliminate take-home vehicles. The state of Maryland has eliminated take-home vehicles for state employees, while Ohio no longer provides state vehicles for cabinet members. We found that the city has also tried to restrict take-home vehicles, but its policy is inadequate and unenforceable.

Sections 105-1 through 105-10, Hawai'i Revised Statutes, establish restrictions governing the use of city-owned vehicles. Mayor's Directive No. 05-06 incorporates the statute's restrictions in setting the city's take-home vehicle policy applicable to all executive branch city employees, except the mayor and employees of the police department, fire department, and water supply board, who are exempted by state law.

Upon written recommendation of the budget and fiscal services department director, and upon prior review and recommendation of the facility maintenance department director, a city employee may receive authorization to take home a city vehicle. The criteria for such authorization include:

1. Whether an employee, after regular working hours, frequently must immediately repair a public facility whose continuous operation is critical to the health and safety of the community;
2. Whether the use of the city vehicle is essential to the employee's work;
3. Whether other on-duty employees are unable to perform the emergency work;
4. Whether a supervisory employee or other support person is a *first responder* and meets the other conditions stated above; and
5. Whether the personal use of a city vehicle is deemed crucial and vital to operations to safeguard the health and safety of the community.

When an agency head believes an employee should be authorized the use of a city vehicle in accordance with the provisions of Mayor's Directive No. 05-06, a *Request for Personal Use of City Vehicle*, Budget Form 96, shall be submitted to the facility maintenance department. This application must be approved by the Director of the Department of Facility Maintenance; Director of the Department of Budget and Fiscal Services; and, finally, the mayor. The directive further notes that authorization for the

personal use of a city vehicle for travel between work and home shall be granted on a fiscal year-to-year basis, and shall expire at the end of each fiscal year. Budget Form 96 shall be submitted by June 1 of each year, for the ensuing fiscal year beginning July 1.

Despite these controls put into place to monitor the use of take-home vehicles, we found that the city is unable to effectively enforce them. We found that the facility maintenance department does not effectively monitor which employees have take-home authority. We found that 29 unauthorized city employees are taking home city-owned vehicles and that city employees do not consistently submit annual authorization requests to take home city-owned vehicles. The facility maintenance department is unable to rescind take-home vehicle privileges and the budget and fiscal services department is not properly assessing taxable benefits for employees with take-home vehicle privileges. In addition, city agencies are allowing employees to take home city-owned vehicles without proper authorization.

The budget and fiscal services and facility maintenance departments do not effectively monitor which employees have take-home authority

Audit staff met with facility maintenance department staff on November 18, 2008 to obtain information about the city's take-home vehicle program. We found that prior to that meeting, department staff sent out emails to various departments asking them to *update the list of employees who are using city vehicles* or requesting the status of employees who, according to facility maintenance department records, had take-home authority. We found this troubling because the facility maintenance department director is required to approve all requests for take-home vehicles. We would have expected the department to have a definitive list of city employees with take-home vehicle privileges and would send communications directly to those specific employees rather than relying on an email campaign to all department contacts. This *fishing expedition*, and voluntary agency response, did not ensure that every employee currently taking home a city-owned vehicle would be identified. If the department did not have a definitive list of employees, we question how the department can effectively monitor and oversee the use of city vehicles.

When we requested to review Budget Form 96 applications on file with the facility maintenance department, we were given copies of applications dated primarily in 2005, which were submitted in response to Mayor's Directive 05-06. When we asked to review

applications from years prior to 2005, a facility maintenance administrator commented that prior to 2005, the take-home vehicle program was administered by the budget and fiscal services department and referred audit staff to budget and fiscal services for prior years' applications.

We spoke with an administrator from the budget and fiscal services department and requested to review Budget Form 96 applications prior to 1995. Per the department administrator, all take-home vehicle applications were sent to the facility maintenance department as of June 1999. Thus, budget and fiscal services did not have any Budget Form 96 applications on file after June 1999. Budget and fiscal services' most recent list of authorized take-home vehicles was dated May 1995. An email from a budget and fiscal services administrator to the facility maintenance administrator in March 2007 asked,

BFS has been asked to review the current application of Mayor's Directive 05-06 and whether there is a need for citywide monitoring and oversight of vehicle assignments. According to the memo, your department was asked to do the same. Have you responded to the Mayor's request?

This communication between the two agencies with approval authority over take-home vehicles suggests a breakdown in oversight and control.

As result, between 2000 and 2005, the city has no record of who requested take-home vehicle privileges or who was authorized to take home city-owned vehicles. This may explain why the facility maintenance department sought to *update* its list of take-home vehicle authority when our audit began. This lapse in effective management, monitoring and controls makes the take-home vehicle program susceptible to abuse and puts the city at risk for damage and loss due to unauthorized use of city property.

Twenty-nine unauthorized city employees may be taking home city-owned vehicles

Pursuant to Mayor's Directive 05-06, the facility maintenance department sent a memo to all city agencies asking employees with take-home vehicle authorization to reapply. The facility maintenance department convened a panel of city administrators to review the take-home vehicle requests. The panel was comprised of a budget analyst from the budget and fiscal services department, a labor relations chief from the human resources department, and the division chief of automotive equipment

services. In June 2006, the panel reported that it had reviewed 41 applications for take-home vehicle privileges. The panel made recommendations to deny 39 applications and approve 2 applications. The panel further recommended that the discontinuation of take home vehicles be done in phases. Phase I would include 14 excluded managers or exempt appointees. Phase II would include 25 bargaining unit employees. In addition, the facility maintenance department established an appeals committee comprised of representatives from the facility maintenance, human resources, and budget and fiscal services departments. The facility maintenance director approved the panel's recommendations.

According to a facility maintenance department project manager, as of 2006, only four city employees were authorized to take home a city-owned vehicle. The Chief of Emergency Medical Services and Assistant Chief of Operations, Emergency Services Department, were authorized by the facility maintenance department to take home city-owned vehicles. The Medical Examiner and Deputy Medical Examiner are authorized by city ordinance to take home a city-owned vehicle.

When we asked a department of facility maintenance administrator regarding the status of all employees that requested take-home vehicle authorization, or were already taking a city-owned vehicle home, the administrator noted that 10 of the 39 applicants that were denied turned in their vehicle or indicated that they were no longer taking the vehicle home. The department assumed that the other 29 employees were still taking vehicles home, pending appeal of their denied application.

Facility maintenance department lacks authority over take-home vehicles

Despite the Mayor's Directive, approval authority on Budget Form 96, and the review panel, the facility maintenance department has no authority over take-home vehicles. As noted previously in this report, in June 2006, pursuant to Mayor's Directive 05-06, the department of facility maintenance reviewed 41 applications for take-home vehicle authority and denied 39 requests. Denied applicants were allowed to appeal the department's decision. The department set a target date of June 30, 2007 for the discontinuation of take-home vehicle authority for denied applicants. According facility maintenance records, as of November 2008, 29 of 39 denied applicants appealed the decision and continued to take home city-owned vehicles. These city employees continued to take home city-owned vehicles

because the facility maintenance department has no authority to seize vehicles, nor does its appeal process have any substantive effect on city employees.

Two facility maintenance department administrators explained that the department has no enforcement authority, much less the manpower to conduct enforcement. Individual city departments have jurisdiction over their vehicles and all facility maintenance can do is advise the department heads that employees can no longer take vehicles home—but it's up to the departments to enforce it. Furthermore, the facility maintenance department has no authority to confiscate a city-owned vehicle. Both department administrators acknowledged that they don't really know which employees are, and are not, taking vehicles home.

The appeals process is stymied due to past employee union negotiations. Arbitrators in the past have ruled that the discontinuation of take home vehicles is subject to negotiations with the unions. In a case arbitrated between the United Public Worker, AFSCME, Local 646, AFL-CIO and the County of Hawai'i Department of Water Supply, the arbitrator concluded that although the practice of allowing water plant operators to drive county vehicles to and from home and work was not expressly stated in the collective bargaining agreement as required, it qualified as a longstanding employment practice that could not be unilaterally terminated by the employer. Because the practice could be dated back to as early as 1978, it had evolved into an economic benefit for water plant operators. The remedy sought by the arbitrator gave the department of water supply two choices. The first option was to reinstate the practice. The second option was to reimburse travel costs from home to the base yard and from the base yard to home until the end of the collective bargaining agreement.

In a related case that occurred in 1995, an arbitrator's ruling settled a grievance between the United Public Workers, AFSCME, Local 646, AFL-CIO and County of Hawai'i water supply department. The grievance was based on the award of reimbursement of travel costs and the negotiations surrounding the new collective bargaining agreement. The decision was based on contract negotiations for a collective bargaining agreement that expired on June 30, 1993, but was not settled until June 21, 1994. During negotiations, the employer failed to give due notice of intent not to carry over the take-home vehicle practice to the next collective bargaining agreement. Thus, the arbitrator ruled that the practice was still in effect through the new collective

bargaining agreement and grievants continued to be reimbursed for travel costs.

These decisions weighed on the Department of Facility Maintenance's review panel and the potential consequences of the panel's decisions. The department suggested that the city begin negotiations with the unions by September 2006. As of November 2008, appeals to the denied applications for take-home vehicles were still *pending* and employees are allowed to continue taking home city-owned vehicles until the appeals can be addressed. However, any action is unlikely since the facility maintenance department and the review committee lack any enforcement authority.

Mayor's Directive 05-06, the review panel, and appeals panel established by the facility maintenance department are appropriate and reasonable actions taken by the city to ensure that employees taking home city-owned vehicles are doing so for valid, necessary reasons that will benefit Honolulu's citizens. However, the city's inability to enforce decisions renders these efforts ineffective. Unless the city can find a definitive solution to the union issues and provide a city entity with enforcement powers to ensure that unauthorized employees do not take home city-owned vehicles, the city will continue to lack any control over taxpayer-funded vehicles, how they are being used, or safeguard against potential waste or abuse.

The director of environmental services and the design and construction deputy director took home city-owned vehicles in violation of city ordinance

Section 2-28.2, Revised Ordinances of Honolulu (ROH), states that an executive agency head or deputy head shall not be allowed to use a city motor vehicle on a take-home basis, except for the police chief and deputy police chief, fire chief or deputy fire chief, medical examiner or first deputy medical examiner, and the civil defense agency administrator. We found two instances where city administrators violated the ordinance.

We found that the deputy director of the design and construction department, as of October 2005, was taking home an SUV. In requesting authorization for continued use of this vehicle, pursuant to Mayor's Directive 05-06, the design and construction department director noted that the deputy needed to be at emergency operations center to arrange contacts, that a four-wheel drive vehicle was necessary, that the deputy could not respond to after-hours emergencies because the deputy's family

needed the personal vehicle for transportation, and that the deputy travels to work sites during off hours. In June 2006, the facility maintenance department advised the deputy director that the request for personal use of city vehicle had been denied. The denial advisory noted that the deputy's job duties and circumstances met only one of five criteria outlined in the mayor's directive. The denial did not reference the city ordinance prohibiting deputy directors from taking home city-owned vehicles. Facility maintenance records show that the design and construction deputy director had surrendered the take-home vehicle.

We also found that the director of environmental services took home a city-owned vehicle. The director submitted this request on his own behalf, which in our view was inappropriate and should have been made by someone else with appropriate authority. In this instance, the director had been taking home a 2005 Ford Explorer SUV. In submitting a request for continued use of this vehicle in September 2005, pursuant to the mayor's directive, the director noted that although he was not a designated first-responder for emergencies, spills are a violation and, as such, carry both monetary and criminal charges, which he should be on-site to evaluate. The director also commented that his city vehicle was equipped with special equipment to help with traffic control and that his own personal vehicle was not equipped to travel during heavy rainfall events. Upon review by facility maintenance department, the director's request was denied. In its denial advisory, the department found that the director met none of the five criteria outlined in Mayor's Directive 05-06 related to take-home vehicles. According to facility maintenance department records, as of November 2008, the director had filed an appeal and was still taking home a city-owned SUV. In response, facility maintenance administrators reiterated that the department does not have the authority to take vehicles away from individuals. Each department has jurisdiction over its own vehicles.

In our view, the spirit of Section 2-28.2, ROH, is intended to ensure that the appearance of special privileges afforded to city officials is set aside. By ignoring the ordinance, city officials violated the public's trust. If better controls were in place, perhaps one of the authorizing agencies would have noticed this violation of city ordinance and denied the approval from the start. Nevertheless, we commend the design and construction deputy director for complying with facility maintenance's instruction to cease taking home a city-owned vehicle, even though the decision was not based on the ordinance. We are troubled by the

environmental services director's refusal to comply with facility maintenance's decision to deny use of a take-home vehicle, and the continued violation of city ordinance and public trust. Furthermore, as a non-represented employee, the director should have complied with facility maintenance's decision because the union-related determination does not apply to an appointed department head. Ultimately, if the facility maintenance department had exercised better management and established tighter controls over take-home vehicles, compliance with city ordinance would have been assured.

City agencies are allowing city employees to take home city-owned vehicles without proper authorization

We found that city agencies are further circumventing Budget Form 96 controls by allowing city employees to take home city-owned vehicles intermittently. We spoke with administrators from the customer services department and asked if department employees were allowed to take home vehicles on a regular or intermittent basis. Administrators acknowledged that employees are allowed to take home vehicles. In fact, one of the administrators we interviewed divulged that he takes home a city-owned vehicle intermittently. When we inquired if he submitted Budget Form 96 to the facility maintenance department on an annual basis, the administrator stated that he did not, and was not aware that it was an annual requirement. We reviewed facility maintenance department's list of employees that have take-home vehicle authority or have requested take-home vehicle authority and we did not find any customer service department employees on file.

We also interviewed administrators from the transportation services department. When we inquired whether department employees were allowed to take home city-owned vehicles on a regular or intermittent basis, these administrators, too, acknowledged that department employees take home vehicles. The administrator explained that the department has a policy that allows staff to take passenger-type vehicles for use during other than normal business hours for legitimate business use. The department's administrative services officer approves all requests for use of passenger vehicles after normal business hours. We reviewed the facility maintenance department's list of employees that have take-home vehicle authority or have requested take-home vehicle authority and we did not find any transportation services department employees on file. We question whether other city departments may be allowing their employees to take home city-owned vehicles without the approval of the mayor,

budget and fiscal services, and the facility maintenance department.

We question the departments' authority to allow employees to take home city-owned vehicles, either on a regular basis or intermittently, in light of state law and the requirements of Budget Form 96. Clearly, both state law and city policy attempt to implement controls over city employees taking home city-owned vehicles. However, city departments are circumventing these controls and putting city property at risk for abuse.

The departments' practice to allow employees to take home city-owned vehicles either intermittently or regularly calls into question the tax liability attached to this benefit. When we asked the payroll division staff person about the tax consequences for the intermittent use of a take-home vehicle, the payroll division staff responded that the issue never came up and that the department currently does not have guidelines to address this situation.

Budget and fiscal services is not properly assessing taxable benefits for employees with take-home vehicle privileges

The authority for a city employee to take home a city-owned vehicle to conduct city business after hours is not merely a privilege, but a taxable *benefit* in the eyes of the federal government. Budget and fiscal services' policy 04.15, *Tax Liability for Use of City-Owned Vehicles*, seeks to assist in determining the tax liability of employer-provided automobile benefits and with the related processing requirements. The guidelines are established using Internal Revenue Service regulations. The policy requires that each department provide the payroll section of the accounting division, budget and fiscal services department, with the names of employees assigned city-owned vehicles on a take-home basis, and to provide any change in take-home authority status.

Vehicles qualifying as either a *non-personal use vehicle* or *qualified non-personal use vehicle* are exempt from taxation. All others are considered taxable.

To qualify as a tax-exempt *non-personal use vehicle* the city must prohibit the employee from using the vehicle for personal use (commuting use must also be prohibited) and the vehicle must be kept on the city's premises. To qualify as a tax-exempt *qualified non-personal use vehicle* the vehicle must be a clearly marked police or fire vehicle; delivery truck with seating only for the

driver, or only for the drive plus a folding jump seat; flatbed truck; any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds; passenger buses used as such with a capacity of at least 20 passengers; ambulances and hearses; bucket trucks (cherry pickers); cranes and derricks; forklifts; cement mixers; dump trucks (including garbage trucks); refrigerated trucks, tractors, combines, school buses used as such, qualified moving vans (used by professional moving companies); or qualified specialized utility repair trucks (employee must be required to drive the truck home for the purpose of responding to emergencies involving electricity, gas, telephone, water, sewer, or a steam utility).

The value of taxable benefits is generally computed using the \$3.00 per day flat rate. The flat rate applies to employees that are required by the city to commute in the vehicle for *bona fide* noncompensatory business reasons; use of the vehicle for personal purposes other than commuting and *de minimis* (e.g. stopping for a loaf of bread on the way home) is prohibited; the vehicle is used for city business and, except for *de minimis*, the employee does not use the vehicle for any personal purpose other than commuting; and the employee is not a public officer as defined in the Handbook for State Social Security Administrators.

Based on the \$3.00 flat rate, the annual taxable benefit for most city employees is \$678. This fringe benefit increases the employee's federal taxable gross, state taxable gross, FICA taxable gross, and medicare taxable gross, and is not a payroll deduction.

According to payroll division records, as of November 2008, the city was assessing a taxable benefit to 10 city employees with take-home vehicle privileges. According to facility maintenance records, there were at least 29 employees taking home city-owned vehicles as of November 2008 and only 4 city employees were actually authorized to do so. Of the 4 employees authorized to take home a city-owned vehicle, only 2 were being assessed the appropriate taxable benefit. In total, only 8 employees that are authorized by ordinance, facility maintenance, or have an application on appeal, are being properly assessed the taxable benefit for use of a take-home vehicle, while 23 employees on facility maintenance's list of current users are not being assessed the benefit and may be running afoul of Internal Revenue Service tax liability.

We also found that two city employees who were being assessed a taxable benefit for a take-home vehicle were not on the facility maintenance department's list of users nor did it have any Budget

Form 96 on file for such authorization. In this instance, budget and fiscal services' payroll division had authorization records for a take-home vehicle, but facility maintenance did not.

According to budget and fiscal service policy 04.15, each department is supposed to notify payroll division of any changes in take-home vehicle status. This requirement has been in place since 1988. We found that departments were not submitting updates as required. Although we found authorization documents for the 10 employees being assessed a taxable benefit for take-home vehicles, the authorization dates ranged from 1998 to 2002. In other words, once authorization is established, the payroll division will continue to assess the taxable benefit unless the division is notified otherwise.

A payroll division staff person we spoke with acknowledged that it was possible for an employee to take home a city-owned vehicle, but not be subjected to the taxable benefit, and that there are no controls in place to ensure that all employees that are actually taking home a city-owned vehicle will be appropriately assessed. The only notification payroll division receives is when a department voluntarily submits a form as required by Budget Policy 04.15.

The lack of management controls and communication between the facility maintenance and budget and fiscal services departments has allowed some city employees to receive the benefit of taking home a city-owned vehicle, but were not assessed the tax liability for that benefit. An employee that may have taken home a city-owned vehicle for 10 years, with a taxable benefit of \$678 per year, would have accrued a benefit valued at \$6,780, but did not have to pay taxes on that added benefit as required by the Internal Revenue Service. Furthermore, there appears to be a disconnect between the notification form required by budget and fiscal services through Budget Policy 04.15 and Budget Form 96 required by facility maintenance and budget and fiscal services, which provides annual authorization for the use of a take-home vehicle. In our view, Budget Form 96 should be the trigger for payroll division to initiate appropriate payroll actions, and not wait for the department to send in a separate form as required by budget policy 04.15. If employees submit Budget Form 96 applications annually, as required, then the payroll division would have an opportunity to review tax assessments on an annual basis and ensure compliance with Internal Revenue Service code.

Automotive Equipment Services Division does not fully utilize its fleet management software system

The National Association of Fleet Administrators recommends that fleet organizations establish key performance measures using SMART metrics:

- **Specific:** clearly defined, focused, related to key business targets and objectives
- **Measurable:** data can be collected; accurate and complete
- **Actionable:** clear, understandable; easy to see the *good* or *bad* and if action is required
- **Relevant:** measures what's important
- **Timely:** data available when you need it

The Department of Facility Maintenance's automotive equipment services' management of the city's passenger fleet is hampered by insufficient use of its fleet management system and practices that limit effective oversight and control. We found that the division does not fully utilize its technology and maintains flawed data, which may adversely impact its effectiveness.

Division estimates it uses only 70 percent of its *FleetFocus M5* software capabilities

The Automotive Equipment Services Division utilizes the *FleetFocus M5 Fleet Management System* to manage the fleet of vehicles under the facility maintenance department's jurisdiction, including passenger vehicles. Among its many capabilities, the system features an asset management function to track and report on critical fleet management data such as accounting, performance and repairs, maintenance histories, historical usage, technical specifications operating information, warranties, downtime, and budgeting for new unit acquisitions. The system can also perform replacement modeling where it selects and prioritizes equipment for replacement based on user-defined criteria such as age, mileage, downtime, operating costs, condition, oil consumption, and availability of replacement funds.

When we asked an automotive equipment services administrator to describe the types of data that the system captures, the administrator conceded that the division uses approximately 70 percent of the system's capability. The administrator acknowledged that there are many reports that the division can generate through the fleet management system, but is not

completely clear on its full capabilities. The division will generate reports internally, but will provide reports to city agencies only if requested. We spoke to a division technician who also acknowledged that the division does not fully utilize the system's capabilities. For example, the system is capable of calculating vehicle capitalization and depreciation costs, but they are not used.

The problem with the division's underutilization of its state-of-the-art fleet management system's capabilities is that under the current fleet management structure between the division and individual city agencies, no one is taking the lead on monitoring, evaluating, or managing the city's passenger vehicles. From the division's perspective, their role is advisory in nature and each individual agency is responsible for its own fleet management and thus, automotive equipment services sees no need to collect, analyze, and prepare such reports. However, when we asked three separate city agencies if they collect and monitor vehicle data, all three agencies stated that they do not collect and analyze data. One agency commented that monitoring is automotive equipment services' responsibility.

Inaccurate data is collected, maintained, and reported by the system

An automotive equipment services technician we spoke with advised us that inaccurate data input also adversely affects the use of the division's fleet management system. For example, odometer readings are not always accurate because data is based on manual figures. The manual figures may not be checked. Also, odometer readings are noted during servicing and refueling. While some fueling facilities have initiated automated data recording, not all facilities are equipped with the proper technology. Thus, some of the vehicle performance data and analysis that the system is capable of producing may be inaccurate.

During fieldwork, we identified a discrepancy in a work order aging report for one of the passenger vehicles under the division's jurisdiction. At issue was a discrepancy in the average labor hours per work order generated by the system. The system reported that the average number of hours that division staff worked on a particular vehicle was 8.7 hours. However, according to our calculation, the average number of hours should have been 6.01 hours. When we brought this discrepancy to a division administrator's attention, the administrator emailed the fleet management system vendor for a response. The division

administrator advised us that upon review, the fleet software vendor identified a glitch in the formula that calculates average labor hours per work order and that the problem should be corrected with the release of an upgraded version of the software. Based on the administrator's response, we surmise that the division was not paying attention or using average labor hours per work order for planning or evaluation purposes. Otherwise, the discrepancy might have been discovered earlier.

While we did not specifically identify any other discrepancies in the data collected or reported, we question whether other problems exist within the system. The division may be relying on analysis that is flawed—affected by incorrect input or output. If the division is to fully utilize its fleet management capability, it must first ensure that it collects and inputs accurate data, apply formulas and analyses correctly, and provide reports to various agencies on a regular basis so that they know how their vehicle is performing.

City agencies generally do not pay automotive equipment services for vehicle repair, service, and maintenance

Another practice that significantly compromises automotive equipment services' ability to manage the city's fleet of passenger vehicles is that city agencies do not pay the division for vehicle repair, service, and maintenance. Under current practice, once city agencies take possession of their vehicle, they generally do not pay for vehicle repair, service or maintenance—automotive equipment services budgets for, and pays for, vehicle upkeep. As a result, there is no incentive for agencies to properly maintain or replace a vehicle. Agencies can continue sending their vehicles to automotive equipment services for repairs and the division will continue to repair the vehicle. The division will, as a last resort, refuse future service for vehicles it deems beyond repair.

In contrast, one of the trends in fleet management is to move towards a *chargeback system* where the city's fleet is operated like a car rental agency. A single agency manages and maintains the fleet and agencies check out cars similar to a car rental agency. The chargeback system accurately recognizes and allocates to each user the costs of operating, maintaining, and replacing the vehicle they use. Users who are responsible for the costs they incur tend to make informed decisions about their own consumption of fleet resources, gain a clear understanding of the services they receive, and can hold fleet managers accountable for service delivery as promised. The fleet organization that implements a chargeback system immediately becomes more cost competitive and able to balance its budget. Management also gains a full understanding of its total costs and can make better and more economical

choices about its fleet size and composition, operator policies and practices, and overall management.

In its advisory capacity, the Automotive Equipment Services Division can issue a *Report of Premature/Abnormal Equipment Breakage or Wear* when it identifies instances of driver carelessness or abuse. In one instance, the division notified the environmental services department that the vehicle it brought in for repair due to a power steering leak was caused by a blue-colored fluid in the system. The fluid caused damage to the hydraulic steering system, which required repair at a local dealership, at a cost of \$1,353. The division found that incorrect power steering fluid was put into the system and advised that only fluids and lubricants approved for this vehicle should be used. However, these reports are merely advisory and does not ensure that the department will change how employees operate or repair the vehicle.

In some instances, if the division determines that the repair is not due to mechanical failure, normal wear-and-tear, or circumstances beyond the driver's control, the division will ask agencies for reimbursement to cover repair costs. Again, this is only a request; the division cannot compel the agency to submit a reimbursement.

As a last resort, if the division receives a vehicle for repair or maintenance and it determines that repairs exceed the vehicle's value or if future repairs are unwarranted, the division will advise the agency via email or phone. At that point, the agency can either authorize automotive equipment services to put the vehicle up for auction or salvage, or it can petition to keep the vehicle. If an agency decides to keep the vehicle, the division will complete a *Notice of Registration Change* form that allows the agency to take responsibility for all future repair and maintenance costs, and relieves the division from further responsibility and expense. According to automotive equipment services, between FY2005-06 and FY2007-08, the division estimates that it sent out between 10-20 letters advising agencies that the cost to repair a vehicle exceeded its value. During that same time period, city agencies opted to take responsibility for eight passenger vehicles after the division advised that future repairs were not warranted.

As a result, the inventory of 949 passenger vehicles reported by automotive equipment services as of August 2008 does not give a full representation of the city's passenger vehicle fleet. Because automotive equipment services does not track or monitor vehicles that agencies have assumed full responsibility, there are an

unknown number of city-owned vehicles operating outside of the division's jurisdiction. Furthermore, in addition to the funds expended by the division for regular repair, service, and maintenance, individual city agencies are expending their own operating funds to maintain their vehicles. The critical aspect of this scenario is that automotive equipment services cannot cost-effectively manage such vehicles. The division must wait for the vehicle to completely breakdown or exceed its useful life before it can take the drastic action of refusing service. The unknown repair and maintenance costs that the division incurs prior to the refusal can be an unnecessary expenditure of division resources and the division has little power to control those costs until the end of the vehicle's useful life has expired. The Automotive Equipment Services Division should consider whether a chargeback system might be a more efficient or cost-effective alternative.

Vehicle downtime at Automotive Equipment Services Division is excessive

The National Association of Fleet Administrators cautions fleet managers to examine key indicators to ensure an efficient fleet. One indicator is the *out-of-service ratio*. If too many vehicles or pieces of equipment are out of service at any time, it becomes necessary to purchase additional vehicles or equipment to ensure that user needs are met. Another indicator is *percentage downtime*. This factor should be considered for both internal and external service providers. Vehicles or equipment that remain out of service for extended periods of time result in an issue of equipment availability. Some cities target a 24-hour turnaround time for vehicle repair and return to service. These cities report high percentages of achievement.

We found that vehicle downtime at automotive equipment services for repair, maintenance, and service for passenger vehicles is excessive. The division kept passenger vehicles an average of 14 days per work order, while spending an average of 3.6 hours on actual labor. The environmental services department sends its passenger vehicles to outside vendors for repair, maintenance, and service due to excessive downtime. However, through a service level agreement with automotive equipment services, repair turnaround improvements were accomplished. Despite progress, the service level agreement between environmental services and automotive equipment services has not been fully met.

Some city agencies expressed concern over the length of vehicle down time spent at automotive equipment services

We spoke to administrators from three different city agencies and each expressed varying levels of concern over the length of vehicle downtime spent at automotive equipment services for repair, maintenance, or service. One administrator commented that while automotive equipment services generally provides adequate service for its passenger vehicles, it can sometimes take long to get a car back.

Administrators from another city agency noted that preventive maintenance and inspections are scheduled and usually have a one-day turn around. However, a vehicle repair or something other than preventive maintenance is another issue. It was not uncommon to wait two months or longer to get a vehicle back when a repair was needed. Anything having to do with a repair or other service issue takes much too long and is impractical for the agency.

Administrators from yet another city agency commented that automotive equipment services does not provide adequate service for passenger vehicles, but noted that the division has improved service for smaller items such as safety checks, which are done much quicker. Specifically, one administrator explained that automotive equipment services does not do a good job because the division takes too long to service and repair vehicles. Agency administrators also commented that its current fleet of passenger vehicles would be adequate to serve the department's needs if all vehicles were in service and available—they may even have a few too many vehicles. However, due to breakdowns and the long length of time automotive equipment services takes to service and repair a vehicle, the department's vehicle inventory is higher. Occasionally, the department will rent pickup trucks because of the down time associated with vehicles at the division.

The division kept passenger vehicles an average of 14 days per work order, but spent only 3.6 hours on actual labor

We assessed Automotive Equipment Services Division's efficiency in repairing, maintaining, and servicing vehicles by examining a statistically-valid random sample of city-owned passenger vehicles under the Automotive Equipment Services Division's jurisdiction as of August 2008. Specifically, we examined data provided by the Automotive Equipment Services Division for the 80 passenger vehicles in our sample. Through our analysis, we sought to

identify the length of time vehicles were at Automotive Equipment Services Division for vehicle service. We found:

- During our three-year review period, the 80 vehicles comprised 871 separate work orders, or an average of 11 work orders per vehicle. The vehicles spent a total of 235,127 hours at automotive equipment services, for an average of 2,939 hours (122 days) per vehicle. Total labor hours spent on the vehicles was 3,035 hours, or an average of 76 hours per vehicles.
- Work orders were open an average of 328 hours, or 14 calendar days.
- The average number of labor hours spent per work order was 3.6 hours.
- An average of 97.7 percent of the time each vehicle spent at automotive equipment services was for non-labor.
- The *smallest* ratio of percent downtime at automotive equipment services for non-labor was 91.3 percent. In this example, a van went to automotive equipment services four separate times; spent a total of 1,189 hours (50 calendar days) on site; and division staff spent 25.8 actual hours working on the vehicle.
- The *largest* ratio of percent downtime at automotive equipment services for non-labor was 99.9 percent. In this example, a utility truck went to automotive equipment services four separate times; spent a total of 21,429 hours (893 calendar days) at the division; and division staff spent 21.4 actual hours working on the vehicle. This utility truck also had the distinction of spending the most total hours at the division.
- The *fewest* total hours spent at automotive equipment services was 70 hours. In this example, an SUV went to automotive equipment services two separate times; spent a total of 70 hours (3 calendar days) at the division; and division staff spent a total of 6 hours working on the vehicle.
- The *most* total labor hours spent was 131.2 hours. In this example, a pickup truck went to automotive equipment

services 11 separate times; spent a total of 131.2 hours. In this example, the 131.2 labor hours represented only 3.5 percent of the 3,701 hours the vehicle spent on site at the division.

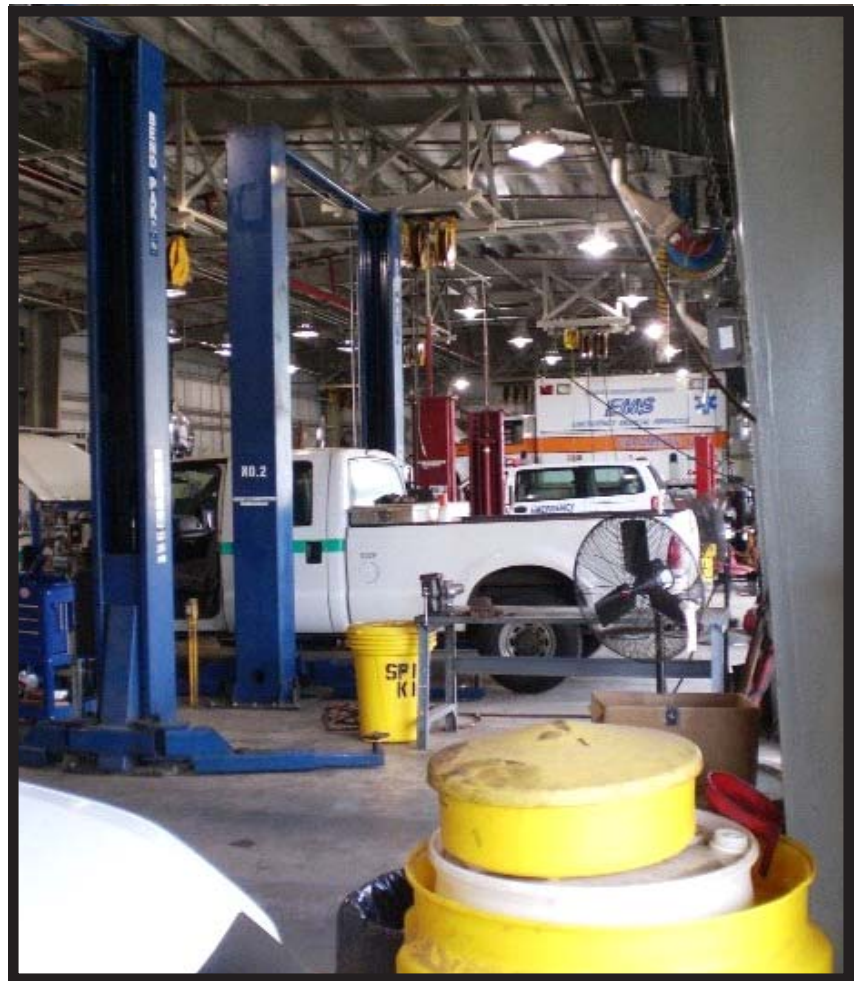
- The *fewest* total labor hours spent was 1.8 hours. In this example, an SUV went to automotive equipment services once; spent a total of 144 hours on site.

An automotive equipment services administrator commented that while the division has a general sense for about how long labor should take to repair or service a passenger vehicle, it does not have a standard for how long a vehicle should sit at the division's yard. The administrator further explained that from a fleet perspective, the division could be doing a better job in returning vehicles to departments in a more timely manner, but emphasized that the division services a *fleet* of vehicles, whereas some private sector companies run a business servicing only select vehicle makes, models, and other criteria. Furthermore, the division shouldn't have to spend so much time on unnecessary repairs due to neglect by city agencies. Perhaps, if agencies had to pay for their repairs, they would be more careful regarding vehicle use and more proactive in maintaining vehicles.

The automotive equipment services administrator also stated that the division will put priority on *work* vehicles such as crewcab trucks with specialized equipment, ambulances, and refuse trucks. Sedans, SUVs, and the like will be the lowest priority. Thus, even if a passenger vehicle comes in for service, it may not get worked on in the order in which it came. The division must prioritize the order in which it services vehicles. Another factor contributing to the length of time issue is the division's policy to review the vehicle's overall needs prior to release. For example, if an agency brings a vehicle in for a specific repair, the division will also check records to see when the last service occurred or if the safety check expiration is coming up. In these instances, the division will keep the vehicle to complete necessary service requirements, which adds to the vehicle's downtime. Recently, however, the division's policy is to advise the agency of an upcoming need for routine service or safety check and *ask* if it can hold on to the vehicle to complete the tasks. Some agencies will decline the request and ask to have the vehicle released. This requires the agency to bring the vehicle in at a later date, again, and have the vehicle subjected to whatever division constraints or priorities exist at that time. Unlike a private shop that will only perform the job you request (although they may point out other service items needing attention), the division, as a fleet operator,

has an obligation to ensure that all service requirements are met. Ultimately, the division has little control over when a vehicle will come back for needed service and in what condition.

Exhibit 2.6
Photo of Repair Bay at Automotive Equipment Services Division's Halawa Facility



Passenger and other vehicles are serviced at Automotive Equipment Services Division's Halawa Facility. The division kept passenger vehicles an average 14 days per work order, but spent only 3.6 hours on actual labor.

Source: Office of the City Auditor

Environmental services department sends some of its passenger vehicles to outside vendors for repair, maintenance, and service

In response to the lengthy downtime of vehicles at the automotive equipment services division for repair, maintenance, and service, the environmental services department's Collection Systems Maintenance Division sends all of its passenger vehicles to outside vendors for repair, maintenance, and service. According to a collection system maintenance staff person, since May 2006, all pickup trucks, SUVs, utility trucks, and crewcab trucks, approximately 60-70 vehicles, are serviced by private providers. Repair and maintenance fees are paid for by environmental services operating funds, and are in addition to funds it pays directly to automotive equipment services for service of other department vehicles. In some instances, the state and federal governments provide funds for vehicle repair and maintenance, which are transferred directly to automotive equipment services division.

The reason the maintenance division sends its vehicles to the private sector is because automotive equipment services is *slow*. A collection division administrator explained, for example, a radiator job might take two or three weeks at automotive equipment services; at a private repair shop it will take one day. The administrator further noted that automotive equipment services sometimes forgets about vehicles they have waiting for service. Because of federal Environmental Protection Agency (EPA) requirements, the environmental services department needs access to its vehicles. The department can't tell the EPA, *sorry we couldn't make it to the sewage spill site because our truck was in the shop*.

According to Collection Systems Maintenance Division records, between May 2005 and November 2008, the division paid \$397,041 to 27 different vendors for vehicle repair and maintenance in the private sector.

Environmental services and facility maintenance departments enter into a service level agreement to address reliability issues

Environmental services department's outsourcing of certain passenger vehicle repair and maintenance was enabled through a service level agreement with the facility maintenance department and the Automotive Equipment Services Division. The purpose of the agreement, which was established in 2004, is to ensure the availability of safe, dependable vehicles and equipment for the

environmental services department and to provide automotive equipment services with support and funding to enable the division to perform maintenance services efficiently and economically by defining, as clearly as possible, the fleet maintenance and management responsibilities of each agency. This agreement is equivalent to a memorandum of understanding or an agreement of good faith between two city agencies, and is not a formal contract with the full force and effect as defined by the Department of Corporation Counsel.

Through the agreement, Automotive Equipment Services Division responsibilities include, among other things:

- Performing repairs to meet or exceed manufacturer and/or industry standards and submit quarterly cost report by equipment class;
- Submitting an annual report of expenditures within 90 days after the end of each fiscal year to assist environmental services department in budgeting for the next fiscal year;
- Minimizing equipment downtime by completing repairs within established manufacturer, industry and/or internal benchmark timeframes;
- Maintaining records of work performed on equipment, cumulative and unit operating costs, and usage and provide environmental services with electronic access to information on unit availability, repair status, fleet size, etc., and provide ad hoc reports to environmental services as requested through the fleet coordinator; and
- Scheduling preventive maintenance when environmental services equipment is not normally in service and return equipment within a reasonable time commensurate with the complexity of the repair.

Environmental services' responsibilities include:

- Providing adequate funding at the beginning of each fiscal year to pay for anticipated automotive equipment services maintenance expenses, which shall include an estimated cost for abnormal wear-and-tear based on historic data;

- Establishing a program to train operators in the proper use and care of equipment, ensuring that each has the appropriate license and/or certification, performs daily pre- and post-trip inspections, and complies with operating instructions and directives; and
- Providing correct mileage, vehicle identification, and operator identification when obtaining fuel, so that fuel consumption can be calculated and equipment usage can be tracked.

From automotive equipment services' perspective, the service level agreement primarily helps environmental services department because the department can get its vehicles serviced faster, but it also helps automotive equipment services in that it served notice to division employees that they need to step-up service. A division administrator also commented that a vehicle replacement plan is key because the division cannot provide *front line* service for vehicles that are older than ten years. The agreement has also helped to facilitate better dialogue and communication between automotive equipment services and environmental services.

Service level agreement between environmental services and facility maintenance has not been fully met

Although the service level agreement between automotive equipment services and environmental services has existed since 2004, the parties have yet to fulfill their responsibilities. One of the issues that has yet to be resolved is automotive equipment services' reluctance to give vehicle repair and maintenance cost data to environmental services. According to a collection system maintenance staff person, automotive equipment services has yet to integrate its fleet management software system with the environmental services' software system. From environmental services' perspective, automotive equipment services is reluctant to release vehicle data. Environmental services has complied with automotive equipment services' requests for service and repair records for vehicles taken to the private sector, presumably to enter into their fleet management system since automotive equipment services is still responsible for the vehicle. However, automotive equipment services has not complied with requests for similar data, including work done and cost for vehicle repairs. As a result, the department feels that there is no accountability. For example, environmental services cannot check work being done on its vehicles. There have been occasions where work was done on a wrong vehicle or incorrect work was done on a vehicle.

While the department acknowledges that mistakes can happen, if it had access to vehicle records, the department could reconcile or correct mistakes before they happen or soon after.

An automotive equipment services administrator explained that the division has agreed to provide access to requested information. However, the division has concerns about simply *dumping* data without an understanding about the background behind the data. For example, the division's fleet management system reports contain actual costs for parts, materials, fuel and wage rates, and that it only captures costs associated with a job task identified on a work order. It does not include costs for disposal fees (used tires, batteries, fluids, scrap metal, etc.) or shop supplies such as rags, sealers, connectors, nuts, bolts, tie straps, or other items used in conjunction with a repair, but is not a *part* that is easily assigned to a work order. Fluids such as engine oil, transmission oil, hydraulic oil, coolant, brake fluid, etc., and greases, are not captured in the system; however, the labor costs to change the fluid are included. Finally, indirect labor costs are not identified in the system, including shop supervisor, lead mechanics, storeroom personnel salaries, service station attendants, production control salaries, and administration. Thus, the division is cautious about comparing costs, for example, between the city and the private sector because the structure may be very different.

The service level agreement between the facility maintenance and environmental service departments is both admirable and troubling at the same time. We applaud the parties for coming together and forging an agreement that is akin to a fleet management plan. The plan outlines many of the elements that best practices recommend for efficient fleet management. The plan is also troubling because it limits enhanced service to only one city agency. While we acknowledge the special circumstances the environmental services department has regarding its first-responder role in environmental emergencies, other city agencies perform important work that also need reliable, efficient service to get their vehicles on the road. Furthermore, we recognize the underlying privatization issues this service level agreement raises and acknowledge some resistance to its full implementation. Nevertheless, we view this service level agreement as a good starting point for future improvements that all city agencies can make to ensure the most efficient fleet possible.

Conclusion

As of August 2008, the Department of Facility Maintenance managed 949 passenger-type vehicles in the city's fleet. These vehicles represent a significant investment of resources to purchase, service, and maintain. These vehicles are integral to the city's mission to provide needed services to O'ahu's residents and visitors. Taxpayers rightfully expect that the city maintain an efficient fleet of vehicles. We found that many issues hamper the city's ability to achieve an efficient fleet of passenger-type vehicles.

Fundamentally, the current governance structure to effectively manage the city's fleet of passenger-type vehicles is fragmented and lacks authority and accountability. The facility maintenance department is primarily responsible for *managing* the city's fleet, but it does not have direct say in how many vehicles the city should have, what type of vehicles should comprise the fleet, or how long a vehicle should remain in the fleet. Individual city agencies have broad authority in selecting the type of vehicles under their control and how long to keep them, but do not directly pay for the vehicles' upkeep. Thus, there is no incentive for agencies to properly maintain their vehicles or to dispose of vehicles, even when they've passed their useful life. The budget and fiscal services department does not formally evaluate passenger-type vehicles to determine cost implications down the line. The Automotive Equipment Services Division has the capability to effectively monitor, analyze, and report on a vehicle's historical use and its predicted future. However, since the division has no unilateral authority in fleet purchasing or replacement, it does not fully utilize its fleet management software capability. As a result, the city has a passenger fleet composed of various models, makes, and manufacturers. A single city entity, with a formal fleet management plan, would be more effective in managing the city's fleet of passenger-type vehicles.

The city's passenger-type vehicle fleet is further hampered by ineffective management practices. The lack of a formal fleet management plan results in a potentially aged and under-utilized fleet of passenger-type vehicles. While we do not suggest that the city should have hard-and-fast rules to replace vehicles merely because they've reached a certain benchmark or threshold, we feel that vehicles that meet certain benchmarks or thresholds should be given more scrutiny and be subject to appropriate replacement considerations. The city's inability to properly identify and control the city staff privilege of taking home city-owned vehicles is a cause for concern. Weak and unenforceable controls make this program vulnerable to abuse and puts the city

at risk for any damage caused by unauthorized use of city property. Although the Automotive Equipment Services Division's authority to manage the city's fleet is stymied under the current governance structure, it can make improvements by better utilizing its fleet management software system, improve customer service by reducing vehicle downtime, and by implementing fleet management best practices. Ultimately, management of the city's passenger and other vehicles should be consolidated under a single entity that can comprehensively manage the city's fleet from purchase to retirement.

Recommendations

1. The mayor should:
 - a. Consider aligning all management responsibilities for the city's fleet of vehicles, including passenger-type vehicles, under a single entity.
 - b. Consider requiring agencies to justify passenger-type vehicle purchases that do not meet the intent of Resolution 06-176.
 - c. Work with corporation counsel to resolve union-related and other outstanding issues that will allow the city to effectively control the use of city-owned property.
 - d. Coordinate with the Department of Budget and Fiscal Services and Department of Facility Maintenance to establish a proposal for dedicated funding for the purchase of replacement passenger vehicles.
2. The Department of Facility Maintenance should:
 - a. Establish a formal, comprehensive fleet management plan to include possible standardized fleet specifications, replacement policies, benchmarks, vehicle evaluation requirements, and other fleet management industry-recommended best practices.
 - b. Prepare annual reports to various city agencies and the council regarding passenger-type vehicles that have reached its useful life and require agencies to justify continued use and inclusion in the city's fleet.

- c. Work with the administration to definitively identify city employees taking home city-owned vehicles and update the list annually until employee appeals are resolved.
 - d. Enforce the requirement that all city employees with take-home vehicle privileges submit their Budget Form 96 authorization requests annually and clarify the city's policy on city agencies' practice to authorize the intermittent use of city-owned vehicles to select department employees.
 - e. Prepare a feasibility study for implementing a chargeback system that places responsibility for passenger vehicle repair and maintenance costs with individual city agencies.
 - f. Utilize all appropriate *FleetFocus M5 Fleet Management System* capabilities by inputting accurate, timely data and using to the data to monitor, evaluate, and report on vehicle performance.
 - g. Work with the mayor to consider sending certain, or all, repair, maintenance, or service needs for passenger-type vehicles to private sector vendors.
 - h. If automotive equipment services continues to service passenger vehicles, establish appropriate standards for vehicle turn around time and take steps to minimize down time.
 - i. Survey city agencies annually to obtain feedback on services provided and use the data to improve service.
 - j. Comply with the terms of its service level agreement with the Department of Environmental Services.
3. The Department of Budget and Fiscal Services should:
- a. Coordinate with the facility maintenance department to identify all employees with take-home vehicle privileges via *Request for Personal Use of a City Vehicle*, Budget Form 96, and assess appropriate taxable benefits.
 - b. Research the tax implications for the intermittent take-home use of a city-owned vehicle, and as necessary, establish guidelines for intermittent use of take-home vehicles by city employees.

Response of the Affected Agencies

Comments on Agencies' Response

We transmitted a draft of this report to the Departments of Facility Maintenance and Budget and Fiscal Services on September 4, 2009. Copies of the transmittal letters are included as Attachment 1. We informed the agencies that a written response to our draft was due on September 21, 2009. The departments jointly requested an extension to submit its response, which was granted by the city auditor. On September 28, 2009, the Department of Facility Maintenance submitted a consolidated written response to the draft report, which is included as Attachment 2.

In its consolidated response, the Departments of Facility Maintenance and Budget and Fiscal Services expressed general agreement with our audit findings and recommendations. The agencies also offered clarifying information, updated programs and activities related to fleet management, and other comments. We acknowledge the additional information provided by the agencies, but stand by our audit findings.

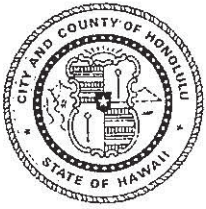
In addition to requesting a written response to the draft report, we asked the affected agencies to indicate whether they agreed or disagreed with the audit recommendations. If the agency indicated agreement, we further asked for detail on a corrective action plan and implementation date. Generally, the agencies stated that they will review the fleet management program to formalize a fleet management plan. The plan would include a review of a chargeback system, amended policies related to take-home vehicles, controlled inventory, surplus liquidation, and standardized fleet. The agencies also committed to working with public sector unions on the use of private sector vendors for the servicing and maintenance of fleet vehicles. The agencies also concurred that while consolidation of the program is a model to work toward, they will take interim steps to improve fleet management. The Department of Budget and Fiscal Services also committed to working with the Department of Facility Maintenance to properly account for all take-home vehicles, occasional use of take-home vehicles, and the assessment of appropriate tax benefits. The departments expect this particular review and an action plan to be in place by December 31, 2009.

In addition, the agencies expressed concerns over our audit scope and omission of steps the departments have recently taken to

address many of our audit findings. First, the agencies expressed concern that the premise for conclusions and recommendations found in the report is the result of data limited only to passenger vehicles and not the entire fleet. For example, the departments cite that although the passenger vehicle fleet grew by 13 percent during our three-year review period, the city's overall vehicle fleet decreased by 11 percent. They further note that our finding that passenger vehicle downtime at Automotive Equipment Services Division is excessive does not provide a realistic evaluation of the division's overall performance since we only examined passenger vehicles, which are the lowest priority. While we acknowledge the departments' concerns, our audit scope clearly states that we selected passenger vehicles for this review because of the wide discretion city agencies have in purchasing passenger vehicles and that passenger vehicles are at greatest risk for abuse. Our audit findings and recommendations specifically cite application to passenger vehicles only, with the possible exception of a citywide fleet management plan that could benefit all city vehicles, including passenger vehicles. Furthermore, since the departments did not refute our findings that the city's passenger vehicle fleet grew over the three-year review period or that downtime for passenger vehicles is excessive, we stand by those findings.

Second, the departments expressed concern that the audit report did not acknowledge the steps the city has already taken to address many of the report's findings. As an example, in January 2009, the city improved coordination for the procurement of a more standardized fleet of vehicles. We recognize and commend the city for taking initiative to improve passenger vehicle procurement. We note, however, that our audit scope identifies our review period as passenger vehicles under the jurisdiction of the Department of Facility Maintenance for the period FY2005-06 to FY2007-08. The program and procedural improvements cited in the departments' response were not applicable to our review period and, thus, were not included in the audit report.

Although we did not make any substantive changes to the draft audit report, we made technical, non-substantive amendments for purposes of clarity and style.



LESLIE I. TANAKA, CPA
CITY AUDITOR

OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU
1001 KAMOKILA BOULEVARD, SUITE 216, KAPOLEI, HAWAII 96707 / PHONE: (808) 768-3134 / FAX: (808) 768-3135

September 4, 2009

COPY

Mr. Rix Maurer III, Director
Department of Budget and Fiscal Services
530 South King Street, Room 208
Honolulu, Hawai'i 96813

Dear Mr. Maurer:

Enclosed for your review are two copies (numbers 12 and 13) of our confidential draft audit report, *Audit of Select Management Practices of City-Owned Passenger Vehicles Under the Jurisdiction of the Department of Facility Maintenance*. If you choose to submit a written response to our draft report, your comments will generally be included in the final report. However, we request that your response address each audit recommendation as follows:

1. Whether you agree or disagree with the audit recommendation,
2. If you agree with the recommendation, please detail your corrective action plan, and
3. The date you expect to implement your corrective action plan.

Please submit your response to my office no later than 12:00 noon on Monday, September 21, 2009.

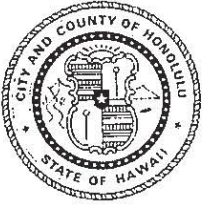
For your information, the mayor, the managing director, the Department of Facility Maintenance, and each councilmember have also been provided copies of this **confidential** draft report.

Finally, since this report is confidential, still in draft form, and changes may be made to it, access to this draft report should be restricted to those assisting you in preparing your response. Public release of the final report will be made by my office after the report is published in its final form.

Sincerely,

Leslie I. Tanaka, CPA
City Auditor

Enclosures



LESLIE I. TANAKA, CPA
CITY AUDITOR

OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU
1001 KAMOKILA BOULEVARD, SUITE 216, KAPOLEI, HAWAII 96707 / PHONE: (808) 768-3134 / FAX: (808) 768-3135

September 4, 2009

COPY

Mr. Jeffrey Cudiamat, Director and Chief Engineer
Environmental Services Department
1000 Uluohia Street, Suite 215
Kapolei, Hawai'i 96707

Dear Mr. Cudiamat:

Enclosed for your review are two copies (numbers 14 and 15) of our confidential draft audit report, *Audit of Select Management Practices of City-Owned Passenger Vehicles Under the Jurisdiction of the Department of Facility Maintenance*. If you choose to submit a written response to our draft report, your comments will generally be included in the final report. However, we request that your response address each audit recommendation as follows:

1. Whether you agree or disagree with the audit recommendation,
2. If you agree with the recommendation, please detail your corrective action plan, and
3. The date you expect to implement your corrective action plan.

Please submit your response to my office no later than 12:00 noon on Monday, September 21, 2009.

For your information, the mayor, managing director, the Department of Budget and Fiscal Services, and each councilmember have also been provided copies of this **confidential** draft report.

Finally, since this report is confidential, still in draft form, and changes may be made to it, access to this draft report should be restricted to those assisting you in preparing your response. Public release of the final report will be made by my office after the report is published in its final form.

Sincerely,

A handwritten signature in cursive script, appearing to read "Leslie I. Tanaka".

Leslie I. Tanaka, CPA
City Auditor

Enclosures

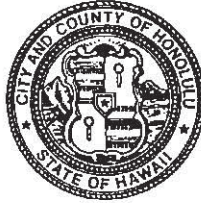
DEPARTMENT OF FACILITY MAINTENANCE
CITY AND COUNTY OF HONOLULU

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MUFI HANNEMANN
 MAYOR

JEFFREY S. CUDIAMAT, P. E.
 DIRECTOR AND CHIEF ENGINEER

GEORGE "KEOKI" MIYAMOTO
 DEPUTY DIRECTOR



'09 SEP 28 P12:16

September 28, 2009

C & C OF HONOLULU
 CITY AUDITOR

Mr. Leslie I. Tanaka, CPA
 City Auditor
 Office of the City Auditor
 1001 Kamokila Boulevard, Suite 216
 Kapolei, Hawaii 96707

Dear Mr. Tanaka:

Subject: Consolidated response to draft Audit of Select Management Practices of City-Owned Vehicles Under the Jurisdiction of the Department of Facility Maintenance

Thank you for the opportunity to provide a response to the confidential draft report titled, "Audit of Select Management Practices of City-Owned Passenger Vehicles Under the Jurisdiction of the Department of Facility Maintenance." Herein please find the City Administration's coordinated response, which incorporates comments from the City's Departments of Facility Maintenance (DFM) and Budget and Fiscal Services (BFS).

While we acknowledge the level of detailed work that is encompassed in the audit report, we are concerned that the premise for conclusions and recommendations found in the report is the result of an analysis of data limited only to passenger vehicles and not the entire fleet. One example is the statement in the report that the City's passenger fleet grew over 13% despite an informal policy of no growth and a one-for-one replacement guideline. Had the Auditor considered the entire vehicle fleet, the fact that the City vehicle fleet actually decreased by over 11% during the period covered by the audit would have been revealed. Consequently, the overall significance of the audit's findings may be overstated. In addition, the report does not acknowledge steps that the City has already taken to address many of the findings in this report.

We appreciate the Auditor's primary conclusion that, "(u)ltimately, management of the city's passenger and other vehicles should be consolidated under a single entity that can

comprehensively manage the City's fleet from purchase to retirement." This describes a management model that serves as a potential goal. However, as the City moves toward the model, we must contend with the constraints of a State procurement law that is premised on competition and the lowest bid, the realities of budget constraints in a weakened local economy, the responsibility to honor collective bargaining agreements, and client/user agency expectation that their individual needs be addressed.

Consolidation implies that there will be a single controlling authority for all fleet functions. With or without consolidation, the City strives to ensure that client/user agency needs are addressed through improvements to coordination and cooperation of all affected agencies. This is true for all aspects of the fleet management program, whether for procurement, for scheduling of maintenance service, for disposal, or for the use of City-owned vehicles.

For example in January 2009, the City took a major step to improve coordination for the procurement of a more standardized fleet of vehicles. We recognized that any policy change must balance various, sometimes conflicting, requirements: the need to foster adequate competition, address budgetary constraints, work within DFM's ability to service a varied fleet, and provide proper equipment to satisfy agency requirements. The City implemented the following measures:

- Consolidated purchases of vehicles to take advantage of manufacturing timelines and local distributor programs to reduce overstocked inventories.
- Simplified specifications to increase competition.
- Identified standard classes of vehicles and developed minimum specifications for each class.
- Required the Chief Procurement Officer's approval for deviation from standard minimum specifications.
- Required vendors to provide extended maintenance and warranty programs to reduce requirements on DFM.

The City also consolidated requests for vehicle purchases during the second half of FY 2009. The bid consisted of 24 vehicles utilizing simplified specifications and closed on May 23, 2009. Although we originally targeted the bid to be released in March to take advantage of dealership transition into new-year models and fleet pricing, efforts to achieve multi-agency agreement on standardized specifications slightly delayed the process. Even with that, many benefits were derived from this first attempt:

- Agencies now recognize and understand the value of simplified, standard specifications.
- Manufacturers/dealerships that had not previously bid on requests for vehicle purchases entered the competition.
- BFS Purchasing Division learned more about the industry and the issues related to competition.
- Minimum specifications for classes of vehicles can still be fine tuned for future solicitations.

Given this success, the City again will consolidate vehicle purchases for FY 2010. Once the procurement issues of specifications and competition are refined, the City will focus its attention on balancing inventory throughout the City and maximizing the use of each vehicle in order to create a fleet management plan which addresses controlled inventory cycles and surplus liquidation.

RESPONSE TO SUMMARY OF FINDINGS

The auditor spent over a year analyzing data and developing the draft report. The statements made in the report are too numerous to respond to on an individual point-by-point basis given the relatively short response time. Notwithstanding the limited timeframe, the following section provides our response to the more material audit findings.

The City's Fleet Management Purchasing Practices are Fragmented and Lack Accountability

Audit Findings:

- **The City lacks a formal fleet management plan**
- **Passenger vehicle purchase decisions are decentralized and subject to weak oversight**
- **Absence of a vehicle replacement policy results in an aged, inefficient fleet**
- **Under-utilized vehicles may adversely impact fleet efficiency**

City's Response: The City recognizes the need to effectively manage the City's rolling fleet inventory. However, in our ongoing effort to improve efficiencies, we are cognizant that any policy change must balance various, sometimes conflicting, requirements to ensure that, (1) bids

are competitive, (2) the City has the capability to service a varied fleet, and (3) vehicles meet operational requirements.

The City recognizes that there currently is no single controlling authority for all fleet matters, but our current processes ensure that there is accountability at all phases of a vehicle's life span, from acquisition to disposal, within the City's organization.

We consider a central managing authority administering all fleet functions as a management model with merits. However, moving toward that model is a complex effort-requiring budgetary, operational, and personnel concerns to be addressed.

As we discussed above, even without consolidation, the City already is working to ensure there is cooperation and coordination to address client/user agency needs. This applies to all aspects of the fleet management program, whether for procurement, for scheduling of maintenance service, for disposal, or for the use of City-owned vehicles.

We already have made great strides in improving the process to procure a standardized fleet of vehicles. We have achieved the buy-in of client/user agencies which have disparate demands and successfully completed a first round of bid solicitation by the end of the last fiscal year. We continue to work on refining the procurement process and will initiate another solicitation in FY 2010.

Annually consolidating purchases of vehicles should minimize the diversity in makes and models. Requiring vendors to provide extended maintenance and warranty programs will reduce both service and parts requirements on DFM. Once a fleet management plan is implemented and inventory is properly utilized, the life expectancy of a vehicle should coincide with the extended maintenance and warranty program.

Having addressed this element of the fleet management program, we are committed to focusing on balancing vehicle inventory throughout the City and maximizing the use of each vehicle in order to create a fleet management plan which addresses controlled inventory cycles and surplus liquidation.

Audit Finding:

- **Dedicated funding for vehicle purchases is lacking**

City's Response: The audit report suggests that establishing a dedicated fleet replacement reserve fund would ensure the timely replacement of vehicles. However, as the Auditor recognized, it is common for purchases of public sector fleets to be deferred in difficult budgetary times, particularly if the fleet is dependent on the General Fund.

It would be easy, but insincere, for us to say we would commit to a dedicated reserve fund for vehicle purchases, especially as we would question the source of funding for the reserve. In the City's situation, such a reserve would be funded with a transfer of General Fund or Highway Fund monies.

The realities of the budgetary impact of the current economic malaise are evident. With the exception of the Wastewater Program, all other vehicles, generally, are purchased with tax-generated General Fund or Highway Fund monies. Even the Solid Waste Management (refuse) Program is subsidized by the General Fund to the tune of \$98 million, annually.

Simply put, unless the City encounters a budgetary windfall, vehicle purchases, as with all other discretionary expenditures, must be balanced against the City's mandated expenditures such as basic payroll and collective bargaining increases, health fund premium increases, and debt service payments. Creating a dedicated reserve simply means we will be appropriating General or Highway Funds each year into this reserve fund rather than appropriating those monies directly to the client/user agencies or, upon consolidation of the fleet management program, to DFM.

Audit Finding:

- **Council intent to purchase fuel-efficient vehicles is not fully enforced**

City's Response: While the audit report noted that the City has not successfully met the goals of acquiring fuel efficient vehicles as set out in Resolution 06-176, the City stands committed to having a fuel efficient fleet and, to the extent feasible, one that includes the use of hybrid vehicles.

The City does not purchase vehicles for the purpose of simply transporting people. Client/user agencies have the expectation that the vehicles they use will be capable of helping them meet their work needs. Many City services are critical to the safety and health of the public and involve the use of work vehicles to transport the work supplies, materials, tools, and equipment, as well as the personnel, necessary to evaluate and respond to incidents. In deciding on vehicle purchases, the City must balance fuel efficiency criteria against functionality, including an analysis of the risk of compromising the City's ability to effectively and economically deal with everyday work issues.

Most of the production vehicle types that claim greater than 40 mpg are hybrids. However, they are typically smaller, have limited seating and/or cargo space and cost more than comparable non-hybrid vehicles. In addition, studies of all types of hybrids, from compact sedans to transit buses, conclude that for the majority of fleets and vehicle owners, benefits do not outweigh the costs of operating a hybrid. Having stated that, we recognize that hybrids do use less fuel and contribute to reduced tailpipe emissions and lower dependency on fossil fuels.

Enhancing the fuel efficiency of the City's vehicle fleet goes beyond just the issue of acquiring hybrid vehicles for the City's fleet. Further efforts by DFM to reduce fuel consumption include:

1. Limiting new vehicle engine horsepower to the lowest functional rating.
2. Recommending replacement of older less fuel efficient vehicles with newer more fuel efficient ones.
3. Restricting computer controlled vehicle speed settings to 60 mph.
4. Issuing fuel conservation guidelines to all city agencies.
5. Specifying auto tire inflation systems when available.
6. Installing color coded tire valve stem caps so that under inflated tires are easily identified.

The City's Fleet Management Operation Practices Result in an Inefficient Fleet that is Inconsistent with Fleet Management Best Practices

Audit Finding:

- **Policy on use of take-home vehicles is inadequate and unenforceable**

City's Response: The audit report acknowledges that, in 2006, the City initiated a review of take-home vehicles, which resulted in the promulgation of Mayor's Directive 05-06 (codified as Administrative Directive 520), which established the City's policy governing the personal use of City vehicles. However, that attempt to execute a take-home policy has been stymied because of a number of ongoing issues. One such issue is that the prior practice of allowing individuals in certain positions the use of vehicles on a take-home basis may present issues under the collective bargaining system. Another more common issue arises from management's need to have certain individuals available on an on-call basis to address emergencies, such as a sewage spill. A restriction on allowing such employees to have vehicles on a take-home basis is part of on-going discussions.

BFS will continue to work with DFM to properly account for all take-home vehicles, including the appropriate tax benefits, in a manner consistent with Administrative Directive 520 and BFS policy 4.15. The draft report also points out that there is a need for the City to have a more proactive approach to take-home vehicle compliance than currently exists. Part of the ongoing review will be to evaluate the current policy guidance. We expect the review and action to be completed by December 31, 2009.

With respect to the tax implications for intermittent take-home use of City-owned vehicles, we understand that the IRS requires tax reporting for occasional (intermittent) take-home vehicle use when an employee use exceeds the de minimis threshold of 12 times a year. BFS will work with DFM to evaluate City-wide occasional use of take-home vehicles and develop appropriate

guidelines for the authorization, monitoring and reporting of the occasional use of take-home vehicles. We expect to implement the guidelines by December 31, 2009.

Audit Finding:

- **Automotive Equipment Services Division does not fully utilize its fleet management software system**

City's Response: DFM's Division of Automotive Equipment Service (AES) acknowledges that use of its computerized fleet data program is estimated to be about 70 percent of the system's capability. As stated on page 10 of the audit report, AES is responsible for the activities associated with the **maintenance and repair** of City vehicles. To that extent, AES uses the computerized program functionality that best suits these activities.

The City recognizes that the currently unused or partially used features of the software may positively benefit the fleet management program. As we increase our coordination effort, we expect to solicit the cooperation of the client/user agencies to assist with the inputting of data into the system for the vehicles they use. This will allow data to be collected at the source and eliminate the potential for redundancy.

Audit Finding:

- **City agencies generally do not pay automotive equipment services for vehicle repair, service, and maintenance**

City's Response: The audit report suggests the City study the implementation of a chargeback system that places the responsibility for vehicle repair and maintenance costs on the client/user agencies. In effect, this proposal simply changes the budgeting for repair and maintenance costs. Rather than centrally budgeting for these expenditures in DFM, the client/user agencies would individually budget, on an annual basis, for their vehicle repair needs.

While the City would review this proposal as part of our overall review of the City's fleet management system, two concerns immediately arise with the proposal:

1. Decentralizing the repair and maintenance budget into the client/user agencies would be counterintuitive to any effort to consolidate the whole fleet management program.
2. Client/user agencies would have difficulty in establishing proposed annual budgets for these costs. Since they would not have the in-house knowledge of projecting the repair and maintenance costs, they would have to rely on DFM or suffer the consequences of potentially under-budgeting.

Audit Finding:

- **Vehicle downtime at automotive equipment services division is excessive**

City's Response: The scope of the audit does not provide a realistic evaluation of AES's overall performance since it was limited to only passenger vehicles, AES's lowest priority vehicle in the City's fleet. Higher priority service is given to those front line vehicles that are equipped with special features or utilized to transport supplies, tools or equipment necessary to provide essential public services.

SUMMARY

As recommended by the draft audit report, the City will continue to review the fleet management program to formalize a fleet management plan. However, while the City concurs that consolidation of the program is a model to work toward, the City cannot wait until such a major reorganization is implemented. Rather, we will continue to coordinate with affected agencies, and consult with our public sector unions, as appropriate, to successfully implement all aspects of a fleet management program, whether for procurement, for scheduling of maintenance service, for disposal, or for the use of City-owned vehicles.

The City already has made tremendous strides in standardizing the procurement of fleet vehicles.

In continuing to refine that solicitation process, the City is committed to ensuring the resultant fleet inventory will be in-line with our commitment to a cleaner environment. We will continue to move toward a more fuel efficient fleet and, to the extent feasible, will include hybrid vehicles.

With the procurement process progressing, the City will begin to focus our attention on balancing inventory throughout the City and maximizing the use of each vehicle in order to create a fleet management plan which addresses controlled inventory cycles and surplus liquidation.

Any resultant fleet management plan will be focused on ensuring an efficient fleet management program, including improving and enhancing the use of available technical resources. In fashioning this plan, as recommended in the audit report, the City will review efficacy of a chargeback system and will consult with our public sector unions on the use of private sector vendors, to the extent allowable under law, for the servicing and maintenance of fleet vehicles.

Finally, the City will ensure that the resultant fleet management plan will incorporate amended policies governing the use of take-home vehicles from the City's fleet. BFS will continue to work with DFM to properly account for all take-home vehicles, including the appropriate tax benefits, in a manner consistent with Administrative Directive 520 and BFS policy 4.15. BFS will also work with DFM to evaluate City-wide occasional use of take-home vehicles and

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modify the current policies to provide the appropriate guidance for the authorization, monitoring and reporting of occasional use of take-home vehicles.

Again, we appreciate the opportunity to respond to the draft audit report. We are concerned that the overall significance of some of the audit findings may be overstated, particularly since the City has made great strides in moving towards standardization of our vehicle fleet. However, we do appreciate that the report does recognize some of the hurdles the City faces in developing a fleet management plan, and we have taken your recommendations with due serious consideration.

Sincerely,



Jeffrey S. Cudiamat, P. E.
Director and Chief Engineer

JSC:al

APPROVED:



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c: BFS Director
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