King County

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MANAGEMENT LETTER

DATE: November 9, 2009

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, King County Auditor cb

SUBJECT: Follow-up on Implementation of Recommendations from 2007 Performance Audit of County Vehicle Replacement

This memorandum provides the results of our follow-up review of our 2007 County Vehicle Replacement performance audit. The audit looked at how efficiently and effectively the county replaced its non-revenue vehicles.

Our follow-up review found that all nine recommendations from the original audit have been implemented. Implementation of our recommendations has led to more than $120,000 in savings in 2010 and $335,500 in annual savings beginning in 2011 with more efficient use of county vehicles. Implemented recommendations related to the Assessor's Office vehicle usage reimbursement program will save an additional $100,000 per year. In addition, since our audit was published, Fleet Administration has made its rate model more transparent to county user agencies and has ensured that it recovers costs sufficient to maintain an adequate fund balance in compliance with executive policies.

We have two new follow-up recommendations. First, we recommend that the Office of Management and Budget (OMB) finalize its discount rate policy. Second, we recommend that the Transit Division of the Department of Transportation develop its own replacement criteria for pickup trucks. These follow-up recommendations, and the status of implementation of other recommendations, are discussed below.

Background

In 2007, the auditor's office completed a performance audit of County Vehicle Replacement. The objective of the audit was to evaluate the county's management of its vehicle replacement programs. The audit examined whether the county used lifecycle cost analysis to determine the most cost-effective replacement schedule for county vehicles, and whether the county managed its cost recovery process to ensure viability of the vehicle replacement program. The audit also assessed whether the county managed the size of its fleet to ensure the most efficient utilization of vehicles.

We found that the county followed many best practices for vehicle replacement. For example, the Fleet Administration Division of the Department of Transportation, which managed 73 percent of the county's light-duty vehicle fleet, used a sophisticated lifecycle cost model to determine vehicles' optimum replacement point. The division also followed many best practices in developing its rental rates for motor pool customers.

We also found several areas where the county could improve its performance. The county did not routinely monitor its adherence to planned replacement schedules. In addition, the process of developing rental rates lacked transparency. Finally, most county vehicles were underutilized and could have been used more cost-effectively. Our report made recommendations to improve accountability, transparency, and cost-effectiveness in the overall management of county vehicle replacement.

Our 2007 recommendations were separated into three categories: vehicle replacement, funding vehicle replacement, and vehicle utilization. This management letter notes the progress that has been made in implementing our recommendations and provides further recommendations for follow up.

<u>Vehicle Replacement</u>

In 2007, we found that Fleet Administration's lifecycle cost model incorporated all of the elements we recommended for lifecycle cost models, and it produced the results we would have expected. We made recommendations related to technical aspects of Fleet's model, and Transit Division's use of Fleet's model. We also found that none of the four fleet management agencies had formal systems for making early or late replacement decisions or for documenting how they make such decisions.

Recommendation 1: Fleet Administration should use the discount rate recommended by the Office of Management and Budget (OMB) for the Mean Annual Cost Equivalent (MACE) vehicle replacement model.

<u>Status:</u>
Our follow-up review found that Fleet Administration applied to OMB for a waiver from the county discount rate policy. OMB reports that it did not grant a waiver, but that it did not respond formally in writing.

Fleet Administration is using the discount rate prescribed by county policy for decision-making, but it continues to run its own discount rate side-by-side for comparison purposes.

OMB developed its discount rate policy in 2006, including a process for granting waivers, in response to previous audit recommendations from this office. However, OMB never submitted its document to become an official executive policy (AEP). AEPs are countywide directives that are circulated for review and comment before being finalized.

Follow-up Recommendation 1: OMB should finalize its policy and submit it to the Executive Policy Review Group as a first step toward making it an executive policy (AEP).

Recommendation 2: Transit should review a full year of operations and maintenance data for vehicles in the non-revenue fleet to assess whether its costs are comparable to the fleet covered by MACE. If Transit's data differs significantly from Fleet Administration's data, Transit should develop its own fleet replacement criteria.

Status:
In August 2009, Transit completed its review of operations and maintenance costs in comparison to Fleet Administration's costs. For three vehicle types, Transit concluded that its operations and maintenance costs do vary, but do not vary enough to warrant development of standards different from Fleet Administration.

For pickup trucks, however, Transit's analysis revealed significant differences in maintenance and operations costs. These differences are likely, because Transit is using a different size pickup truck and outfitting the truck with a service body. The result is that operations and maintenance costs over the life of Transit pickups are approximately double Fleet Administration's costs. These differences make Fleet Administration's replacement criteria inapplicable to Transit's pickup trucks.

Follow-up Recommendation 2: Transit should use an economic replacement analysis to determine the optimum replacement point for Transit pickup trucks.

Recommendation 3: King County fleet management agencies should establish performance measures and performance targets to track and communicate the effectiveness of their fleet replacement programs.

Status:
Our follow-up review found that the four agencies managing county fleets had developed performance measures to track and communicate the effectiveness of their replacement programs.

Funding Vehicle Replacement

In 2007, we found that Fleet Administration's chargeback rate methodology was equitable and consistent with best practices for management of fleet vehicles. However, the methodology Fleet Administration used to calculate rates was not transparent, making it difficult for Fleet Administration's customers to understand. In addition, Fleet Administration did not appear to review the adequacy of its rates.

The financial plan submitted as part of the 2007 budget showed that the fund balance of Fleet Administration's main internal revenue service fund would fall below the range required by executive policy, and was projected to fall in the future. This led us to question whether chargeback rates were sufficient to cover expenses. Our questions about the adequacy of chargeback rates resulted in the correction of an error of approximately $1.8 million that overstated the fund's expenses and understated the fund's balance.

Recommendation 4: Fleet Administration should make its chargeback rate model more transparent and accessible to the agencies that use motor pool services.

Status:
In response to our 2007 audit, Fleet Administration revised its presentations and handouts describing the rate model. In addition, in response to a 2009 Council Proviso,[1] Fleet Administration began posting breakdowns of vehicle rental rates department by department on the county's Intranet site. This development makes the rate model both more transparent and accessible to county user agencies.

Recommendation 5: Fleet Administration should establish rates that fully recover costs and maintain the Motor Pool Fund balance within the range mandated by executive policy.

Status:
The Motor Pool Fund financial plan, submitted with the County Executive's 2010 Proposed Budget, projects that rates will sustain a Motor Pool Fund balance within the range established by policy.

Recommendation 6: Fleet Administration should submit a revised financial plan for 2007 to the County Council by June 30, 2007.

Status:
Fleet Administration submitted a revised plan to council in June 2007.

[1] Ordinance 16312, Section 119, Proviso P1.

Recommendation 7: Fleet Administration should review its procedures over the recording and reconciling of fund expenses to ensure that information reported in county financial systems is complete and accurate.

Status:
Our follow-up review found that Fleet Administration had completely reviewed its existing procedures in this area, identifying six separate procedures that help ensure accurate recording and reconciling of fund expenses. In addition, Fleet Administration instituted a new review process to avoid such accounting errors in the future. The county's chief accountant reviewed the fund expenses from 2007, 2008, and 2009 and confirmed that the errors found during the 2004-2007 period have not been replicated.

Vehicle Utilization

The 2007 audit found that total fleet costs were lower if fewer vehicles were owned and utilized more intensively than if more vehicles were owned and utilized less intensively. While Fleet Administration published a target for vehicle utilization, there was no executive policy to ensure that agencies meet Fleet Administration's target.

In addition, we found that the Assessor's Office employed a policy for reimbursing its employees for using their personal vehicles for traveling on county business. The program (called a Runzheimer program, after the company that determines the rate of reimbursement) was costly and inefficient because participants from the Assessor's Office drove their personal vehicles for business a relatively small amount.

Recommendation 8: The County Executive should establish a vehicle utilization policy and appoint a committee of user agencies to establish criteria for exceptions to the policy and to monitor individual agencies' compliance with the policy.

Status:
Fleet Administration convened a vehicle utilization committee which identified 61 underutilized vehicles to be taken out of service. Fleet Administration estimates that taking these vehicles out of service will save the county $122,000 in 2010, and $335,500 per year beginning in 2011.

Recommendation 9: The Assessor's Office should discontinue using the Runzheimer program and identify a less costly alternative for providing for employee business travel needs.

Status:
The Assessor's Office conducted a study of the Runzheimer program and reached a similar conclusion that the office could save money if other options for providing employee business travel were pursued. Changes in the collective bargaining agreement with staff have been implemented to provide the office with

greater flexibility in providing for employee business travel. While the office has yet to implement a permanent alternative to the Runzheimer program, on October 1, 2009, the Assessor's Office moved to reduce the Runzheimer reimbursement amount, which will save the office more than $8,000 per month. The office indicates that it continues to study a range of alternatives and will make recommendations to the incoming County Assessor in December 2009.

Rob McGowan, Principal Management Auditor, and Larry Brubaker, Senior Principal Management Auditor, conducted this follow-up review. Please contact Rob at 296-0368 or me at 296-1655 if you have any questions about the issues discussed in this letter.

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