

TO: Gerald Silva, City Auditor
CITY COUNCIL

FROM: Jose Obregon

SUBJECT: Response to Audit Recommendations

DATE: May 28, 2004

Approved

Date

The General Services Department has reviewed the final draft of "An Audit of the Utilization of the Transport Vehicle Fleet of the City of San Jose." We are in agreement with the recommendations of this report; however, there are some general findings and conclusions in the report where additional analysis needs to be performed as a prerequisite to final implementation. Where that is the case, those items are discussed in the Administration's response.

In support of the recommendations in the report titled "An Audit of the Utilization and replacement of the City's Metered Equipment" (Audit# 03-11), General Services has already taken action to address the recommendations in this report. In addition, General Services expanded its scope of involvement by examining, reviewing, and meeting with departments on their fleet utilization practices on an ongoing basis. General Services will incorporate the recommendations of this report in its internal analysis and review of utilization practices with emphasis on establishing a revised utilization policy that provides maximum flexibility and is in the best interest of the City.

Recommendation #1 City Manager:

Direct departments to assign sedans to employees who consistently drive over 9,000 miles per year and amend City Policy Manual Section 142 to better define special purpose vehicles and other possible exceptions to the mileage standard.

The Administration agrees with this recommendation. The Administration proposes to establish a new policy that will clearly define mileage and usage standards, and establish them as the first threshold to be met in order to assign a City vehicle to an employee. We will analyze the break-even point (as recommended for the future in Recommendation #7) to determine whether the mileage standard is properly placed at 9,000 miles per year or at some other level. In cases where the break-even threshold is not met, a number of factors will be considered to determine whether a City vehicle should be assigned to an employee. Issues to be considered in that analysis might include, but are not limited to, the following:

- **Service considerations** – Having an employee use his/her personal vehicle should not create impediments to service delivery. City vehicles should be considered if a personal vehicle creates difficulty in transporting tools, equipment, materials, and other items

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needed by an employee to perform his/her job or in the case that the personal vehicle is required to be driven on unpaved road or construction job sites.

- **Employee safety** – If an employee’s job involves dealing with the public in potentially dangerous or adversarial situations, there are advantages to having the employee arriving in a vehicle with City markings. Other factors to be considered here include whether employees’ attire could identify their City affiliation, and to what extent that might help promote safety as well.
- **Logistical considerations** – There are situations where vehicle pools can be designated at work sites where multiple employees who individually do not meet the mileage and usage threshold can collectively make the utilization of City vehicles a cost-effective strategy. We will analyze whether smaller pools of vehicles designated for work sites are practicable. A number of departments have begun to implement this strategy which may allow the retirement of some vehicles that are currently assigned.
- **Effects on employees** – The impact to individual employees will need further examination, but should not be discounted at this point. These effects must be taken into account so that the City is able to offer alternatives such as pooled vehicles and vehicle rotation systems.

It may not be possible to quantify and weight each of these factors precisely, but we will develop a procedure that explicitly requires their consideration prior to assigning vehicles to employees whose usage does not meet the mileage and hours of use standards.

Fleet Management’s goal is to identify the vehicle redundancies in the fleet and eliminate them while looking for other opportunities such as pooling, interdepartmental sharing, and alternatives to ownership (leasing, rental, and mileage reimbursement) to meet those lower use needs. Fleet Management is currently pursuing the elimination of 250 underutilized vehicles and equipment. This effort is being implemented strategically so as not to adversely impact the delivery of City services and to give departments the opportunity to reassign and increase utilization of remaining fleet resources. Vehicles and equipment identified as underutilized will be pulled from the assigned department’s inventory, assessed for need, and either assigned to “pool” duty or removed from the fleet and sold at auction.

In addition, 115 vehicles have been removed from the fleet by non-replacement. These vehicles have either reached their service life or have experienced major mechanical failure or accident damage. In line with replacement audit recommendations, the majority of these vehicles have not been replaced.

Finally, General Services and the affected departments will be addressing the viability of removing “transport” vehicles and utilizing mileage reimbursement as a means to achieve cost savings and further optimize fleet size. This analysis will take into account the fact that expanding the use of mileage reimbursement at the level mentioned in the audit (removing as many as 306 vehicles from the fleet and switching to mileage reimbursements for the employees currently using those vehicles) will cause the need for a commensurate expansion in monitoring and administrative activities, and introduces greater potential risks and vulnerabilities than those that currently exist.

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We believe that implementing this policy will result in removing some vehicles from the fleet. However, taking into consideration the various factors mentioned in this response, it is very unlikely that the new policy will result in removing 306 vehicles, the maximum number suggested in the audit. As a result, we do not expect these changes to result in the level of maximum savings presented in the audit.

In order to properly develop a new policy that will contain clear and reasonable standards for determining to whom vehicles will be assigned, the Administration recommends that it be directed to produce a revised policy within 60 days, and begin implementation. A report could be provided at some point after implementation that would detail the number of vehicles removed from service and an estimate of the associated cost savings in various funds.

Recommendation #2 City Manager:

Officially designate the Fleet Management Division as the City entity that has the authority and responsibility to actively manage the City's transport vehicle fleet.

The Administration concurs that the Fleet Management Division should be officially designated as the City entity that has the authority and responsibility to administer the City's fleet. The proposed shift in responsibility will not eliminate the communication with City departments to identify and support their critical program vehicle requirements. Fleet Management currently focuses on maintenance, repair and acquisition of vehicles and equipment. With this designation, Fleet Management will work closely with individual user departments to make decisions on fleet deployment, establishing utilization guidelines, and institute other controls as necessary to ensure consistency throughout the organization.

In alignment with this recommendation, the following steps will be taken:

- Fleet Management will work collaboratively with the City Manager's Budget Office, by way of the Vehicle Review Committee currently in place, to make fleet size and fleet replacement decisions. The Vehicle Committee is comprised of the Budget Director, the Deputy Director of General Services and the Fleet Manager.
- The Vehicle Committee will employ utilization analysis relative to the specific uses of equipment to establish utilization guidelines to ensure that equipment resources are used cost-effectively and efficiently.
- Fleet Management will procure, maintain and assign City fleet assets in the most effective manner to support City programs.

Recommendation #3 City Departments:

When appropriate, assign employees to park at the remote parking location that is nearest to the employee's primary work area and ensure that employees are parking assigned City vehicles at authorized remote parking locations.

The Administration agrees with this recommendation. Several departments are already working to implement the recommendation. Department heads will ensure that remote parking locations are assigned based on work areas and that employees do in fact park at those assigned locations.

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Recommendation #4 City Manager: Implement the City's policy to track 24-hour vehicle assignments and provide a complete list of authorized vehicles and employees to appropriate departments.

The Administration agrees with this recommendation. Departments will be asked to submit lists of their current 24-hour vehicle assignments for authorization by the City Manager's Office for review. The Manager's Office will then distribute a list of authorized vehicles and employees, and will ensure that the list is updated annually, in accordance with the procedure.

Recommendation # 5 City Manager: Improve controls over the mileage reimbursement program to help ensure that mileage reimbursement forms are properly completed and contain accurate mileage.

The Administration agrees with the recommendation. The systems are in place to process mileage reimbursement requests; however, additional procedures to enhance controls will be developed. Increased administrative costs will result from the anticipated increased volume of mileage reimbursement requests due to Audit Recommendation #1.

Recommendation # 6 Finance Department: Implement the City's policy to monitor the use of mileage reimbursement and ensure employees are not exceeding 750 miles per month.

The Finance Department agrees with the recommendation. Finance has created a report that will track and report employees who are paid in excess of 750 miles per month and a cumulative report tracking payments over 9,000 miles for a year from the payroll system where these payments are now made. These reports will be added to normal month end payroll processing with the May close of 2004.

Finance will also be reviewing and recommending changes to the City Administrative Manual Section 142.8 to incorporate current practices and needs for vehicle assignments as well.

Recommendation # 7 Fleet Management Division: Periodically conduct a transport vehicle break-even analysis to identify the annual mileage at which the City should provide a vehicle instead of mileage reimbursement.

Fleet Management agrees with the recommendation. As mentioned in the response to Recommendation #1, a break-even analysis will be conducted in conjunction with the development of a revised policy, and then periodically conducted. The break-even point would be one of the criteria in making the determination as to whether provision of transport vehicles or mileage reimbursement is selected, then other factors would be analyzed, as described in the response to Recommendation #1.

Recommendation #8 City Manager's Office:

Establish 11,000 miles as the annual mileage criteria for assigning a light truck to a City employee.

The Administration agrees with the recommendation. This criterion would also be analyzed during the initial policy development, then periodically reviewed. As mentioned above, the mileage break-even point would become the first criterion in determining whether or not to assign a light truck to an employee, then other factors would be considered in cases where usage falls below that level.

Recommendation #9 Fleet Management Division:

Review the City's fleet of specialized vehicles to determine the most cost-effective complement of vehicles.

Fleet Management Division agrees with this recommendation and is currently working with departments to review their entire fleet of vehicles and equipment to identify candidates that are most cost-effective for the City to retain, retire, redeploy, or assign to a pool making them available to all City departments. Further analysis is required to identify potential reductions or redeployments. The National Association of Fleet Administrators (NAFA) and the American Public Works Association (APWA) have noted that, since cities are driven by the "service-on-demand expectations of the community, they cannot focus only on cost effectiveness. All City programs must address quality, timeliness, and customer satisfaction of services provided, as well as the cost of those services. Fleet Management anticipates that optimizing the fleet complement will be an ongoing challenge and a priority of the Division given that the optimal fleet complement is dynamic based on the programmatic needs of the City and the levels of services delivered to the community.

Recommendation #10 Fleet Management Division:

Remove from the City's fleet and sell at auction those transport vehicles that do not meet the City's annual mileage criteria and do not serve a special purpose or are otherwise not exempt.

Fleet Management agrees with the recommendation. As mentioned in the response to Recommendation #1, a new policy will be established that sets a mileage threshold and defines a number of other factors to be considered in the assignment of vehicles. Again, the Administration anticipates that the number of vehicles removed from the fleet will be smaller than the maximum number presented in the audit, thereby resulting in less savings. No vehicles are recommended to be removed from the fleet before Fleet Management completes its current review of departmental transportation requirements, based on a determination of program needs.

This approach prevents the removal and sale of vehicle assets that may be deemed critical to service delivery and will ensure that departments are provided an inventory of vehicles and equipment that align with and support department program goals.

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Recommendation #11 SJPD:

Continue its new vehicle rotation program and formalize it into a policy that applies to all SJPD vehicles.

The Police Department agrees with the recommendation. It is now the Police Department's policy to place a new marked vehicle within a high mileage beat in order to maximize the utilization and value of the manufacturer's warranty. The intent is to place new model year vehicles into high-mileage beats to surface and correct any mechanical failures while the vehicles are still under warranty, thus minimizing maintenance costs. Vehicles are to be placed into low-mileage beats in the latter part of their life cycle. In addition, by following this policy, the Department will better align replacement years with replacement miles.

Recommendation # 12 SJFD:

Implement a transport vehicle rotation program to balance usage and reduce the number of vehicles with low mileage.

The Fire Department agrees with the recommendation to rotate transport vehicles to balance usage and reduce the number of vehicles with low mileage. The Fire Department will adopt the system used by the Police Department to manage this process. Fire staff began meeting with Police staff in May 2004 to conduct fact-finding and begin planning to implement the system at Fire. The Police model for vehicle rotation will be in place by September 2004.

Data provided by Fleet Management was used to identify underutilized vehicles, resulting in the elimination of 16 transport vehicles and one work truck. This process also resulted in a limited rotation of vehicles as some reassignments were made to accommodate those reductions.

Recommendation #13 Fleet Management:

Replace unmarked police vehicles, excluding covert vehicles, using the same replacement schedule as the City's general fleet.

Fleet Management and the Police Department agree with the recommendation. The operational vocation of these vehicles is different from a standard transport vehicle as stated below:

- Unmarked police vehicles are subjected to wear and tear unlike the typical passenger vehicle in the City fleet
- Unmarked police vehicles respond to scenes in a Code-3, high-speed fashion and in some cases are involved in vehicle pursuits
- Unmarked police vehicles are used extensively in "rolling" surveillances, which involve going repeatedly from idle to high-speed (for tailing) for long hours

Analysis will be conducted to determine if the extended service time can be applied to the unmarked police vehicle fleet without adversely impacting enforcement and emergency response activities.

Recommendation #14 Fleet Management:

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Adopt and implement a replacement schedule to replace patrol motorcycles using 4.5 years in service and 60,000 miles.

Fleet Management and the Police Department agree with the recommendation. Adopting the recommended replacement schedule for patrol motorcycles would align years of service with the average miles driven per year.

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