



**Hillsborough
County** Florida

Board of County Commissioners
County Internal Auditor's Office

**FLEET MANAGEMENT DEPARTMENT'S
FLEET REPLACEMENT PROGRAM
FLEET ASSETS DISPOSAL THROUGH REPLACEMENT PROCESS**

**Audit Report # 2020-07
May 20, 2020**



**Hillsborough
County Florida**

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TO: Board of County Commissioners

FROM: Peggy Caskey, County Internal Auditor

DATE: May 20, 2020

SUBJECT: Fleet Replacement Program - Fleet Assets Disposal Through Replacement Process,
Audit Report # 2020-07

Pursuant to the 2020 Annual Audit Plan, the County Internal Auditor's Office conducted a performance audit of the Fleet Replacement Program. The Audit Team's objective was to determine the maturity level of the Program's fleet assets disposal through replacement process.

The purpose of this Report is to provide management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. As such, this Report is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I appreciate the cooperation and professional courtesies extended to the Audit Team. The County Administrator gave the Audit Team full, free, and unrestricted access to all applicable activities, records, property, and personnel necessary to accomplish the stated objective of this audit engagement. Personnel also provided necessary assistance for the Audit Team to effectively perform the audit in an efficient manner.

Copy: Christine Beck, County Attorney
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EXECUTIVE SUMMARY

Pursuant to the 2020 Annual Audit Plan, the County Internal Auditor's Office conducted a performance audit of the Fleet Replacement Program. The Audit Team's objective was to determine the maturity level of the Program's fleet assets disposal through replacement process. The Audit Team concluded that the design of that process, and the activities performed during the process, materially align with established written guiding principles. The process design and activities performed also provide for an adequate internal control structure to accomplish the requirements in Administrative Directive #FM-04. This Administrative Directive establishes guidelines for the Fleet Replacement Program to ensure a consistent funding stream is available to replace fleet assets as they reach the end of their useful life-cycle.

Any minor concerns, that may have been identified and not included in this Report, were communicated to management and/or corrected during fieldwork. The exit conference was held on March 6, 2020.

OVERALL OPINION

It is the County Internal Auditor's overall opinion that the Fleet Replacement Program's fleet assets disposal through replacement process is at the formal control maturity level (level 3 out of a possible 5). Controls are established with some policy structure; there is clarity on roles, responsibilities, authorities and accountability. Performance monitoring is informal, placing greater reliance on the diligence of people and independent audits.

The recommendations in this Report are designed to further strengthen and mature the control structure already in place.

AUDITED BY

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BACKGROUND INFORMATION

Administrative Directive #FM-04 establishes guidelines for the Fleet Replacement Program to ensure a consistent funding stream is available to replace fleet assets as they reach the end of their useful life-cycle. The Program was initially funded by the County's general fund to establish the Fleet Replacement Fund. On a two-year budget cycle, the Fleet Management Department requests Fleet Replacement Program funding. The fiscal year 2019 budget for fleet assets (cost center 564030) was \$21.2 million and there were approximately 2,250 fleet assets in the Fleet Replacement Program inventory at that time (such as cars, trucks, boats, trailers, and lawn equipment) out of approximately 3,300 total fleet assets. The Fleet Management Department utilizes the Assets Works M5 System (an inventory maintenance and tracking software) to manage the fleet's assets throughout their life-cycle.

Based on the Fleet Replacement Fund Model, departments utilizing fleet assets make monthly replacement payments to the Fleet Replacement Program's fund. The payments (plus interest earned and salvage sale proceeds) are designed to fully cover the purchase price and capital upgrades when assets are replaced.

Table 1 below is a summary of the key written guiding principles that direct the Fleet Replacement Program's activities.

Table 1: Key Written Guiding Principles

Written Guidance	Effective Date	Brief Description
Board Policy – Section number: 03.02.02.12 Fleet Maintenance	July 8, 1998	Established to operate the Fleet Management Department within an internal service fund in a self-sufficient manner, reflecting maintenance and replacement of fleet assets. The internal service fund should recover the full cost of providing services to user departments and agencies.
Administrative Directive FM-04 Fleet Maintenance, Utilization, and Replacement Program	August 3, 2015	Established guidelines for maintenance, utilization, and the Fleet Replacement Program, including fleet assets acquisition and disposal with a value greater than \$2,000.
Fleet Management Department's Standard Operating Procedures #6 Asset Management Program	June 27, 2018 April 22, 2019 February 12, 2020	Procedures to effectively acquire, process, identify useful life, and reconcile the Fleet Management Department's assets.
Fleet Management Department Internal Memorandum #5 FY 2019/2020 Program Guidance for Managing Vehicle Replacement Program Capital Assets	June 22, 2018 April 22, 2019 August 14, 2019 September 27, 2019	Summarizes applicable written guiding principles used to support and manage the Fleet Management Department's capital assets that fall within the Fleet Replacement Program.
Fleet Management Department Standard Operating Procedure FM-17 Fleet Replacement Fund Model	May 16, 2019	Provides technical guidance for the Fleet Replacement Fund Model used to assess the overall health and future funding requirements of the Fleet Replacement Fund.
Fleet Management Department Standard Operating Procedure # 12 Auction and Surplus Assets Processing	June 13, 2017 August 14, 2019 February 12, 2020	Establishes guidelines for disposal of assets, proper recording of sale proceeds, and surplus assets processing.

Note: in Table 1, the effective date in bold font was the version used as a basis for audit testing.

AUDIT OBJECTIVE

The Audit Team's objective was to determine the maturity level of the Fleet Replacement Program's fleet assets disposal through replacement process.

APPROACH

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that the County Internal Auditor's Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. The County Internal Auditor believes that the evidence obtained provides this reasonable basis.

SCOPE

The audit scope of work included a review of activities occurring between August 1, 2018, and October 31, 2019, that related to the fleet assets disposal through replacement process' fleet assets inventory control environment, and sustainability of the Fleet Replacement Program.

POSITIVE ATTRIBUTES

The Fleet Management Department has been accredited and awarded with the following accolades in the recent past.

- 2017 and 2019
 - Awarded one of the top 100 fleets in North America by Governing Magazine
 - Recognized as one of Governmental Fleet Magazine's leading fleets
- 2018
 - Received fleet accreditation by the American Public Works Association (APWA)
- 2019
 - Achieved the Fleet Excellence Award from the National Association of Fleet Administrators (NAFA)

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

FLEET ASSETS INVENTORY CONTROL ENVIRONMENT

AUDIT COMMENT

The design of the Fleet Replacement Program's fleet assets disposal through replacement process, and the activities performed during the process, materially align with established written guiding principles. Recommendations were made to build upon the structure already in place.

AUDIT PROCEDURES

The Audit Team determined if the fleet assets disposal through replacement process':

1.1 design has adequate controls and aligns with applicable written guiding principles to provide reasonable assurance that the Fleet Replacement Program's funding is sustainable; and

1.2 activities performed align with written guiding principles and are optimally performed.

The Audit Team performed testing on each of the six key steps in the process as indicated below.

Process Step 1: Review the Fleet Replacement Fund Model and create Life-cycle Reports

The Fleet Replacement Fund's ability to meet the upcoming two-year budget cycle of fleet asset replacement requirements relies upon the accuracy of the Fleet Replacement Fund Model's formula. Administrative Directive FM-04 requires the Fleet Management Department to monitor, adjust, and forecast the formula to set monthly replacement charges for new and existing fleet assets. The formula consists of four key inputs: inflation, interest, salvage rate, and asset life-cycle. The Fleet Management Department includes the salvage rate in the formula even in those instances when a new asset entering the Fleet Replacement Program was purchased outside the Program (for example, a user department or agency purchased the asset with enterprise funds or the asset was purchased with grant monies).

Annually, the Fleet Management Department issues a Program Guidance for Managing Vehicle Replacement Program Memo (Memo 5) to all user departments. Memo 5 denotes any changes to the formula, which may directly impact monthly replacement charges. Changes to the formula are applied to each asset impacted in the Asset Works M5 System. Life-cycle Reports are derived thereafter.

When an asset is purchased, monthly replacement charges are scheduled for the asset's life expectancy. When the asset reaches its life expectancy, the Fleet Management Department reviews the asset's financial "fitness." The review includes comparing the total monthly replacement charges collected plus anticipated salvage value to the expected replacement cost. An appropriate adjustment may be made to the monthly replacement charges (i.e., continue/discontinue charges or charge only for inflation).

Process Step 1: Audit Procedures and Results

Written Guiding Principle	Review Procedure	1.1 Process Design has Adequate Controls and Aligns with Written Guiding Principles	1.2 Activity Performed Aligns with Written Guiding Principle	1.2 Activity Was Optimally Performed
AD-FM-04	The replacement fund formula inputs were monitored and monthly replacement charges were updated based on adjustments to the formula.	Yes	Yes	No
AD-FM-04	Utilization of fleet assets was assessed, and user department replacement recommendations were made, for the upcoming two-year budget cycle during the biannual Fleet Focus meetings.	Yes	Yes	Yes

Process Step 2: User department makes replacement decisions

Twice a year, the Fleet Management Department's personnel disburse Life-cycle Reports and hold Fleet Focus meetings with user department management. The objective is to discuss replacement of assets that have met replacement criteria. The criteria includes: the asset's overall condition, utilization compared to the estimated useful life, and the total amount of monthly replacement charges collected.

Process Step 2: Audit Procedure and Results

Written Guiding Principle	Review Procedure	1.1 Process Design has Adequate Controls and Aligns with Written Guiding Principles	1.2 Activity Performed Aligns with Written Guiding Principle	1.2 Activity Was Optimally Performed
AD-FM-06	The user department's decision to dispose of and replace the fleet asset was reasonable based on the Fleet Management Department's recommendation.	Yes	Yes	Yes

Process Step 3: User department requests replacement

To replace an asset, the user department submits a Vehicle Acquisition Request Application (VARA) Form to the Fleet Management Department. This action initiates the fleet asset replacement process. The VARA Form includes replacement specifications and the decision for requesting the replacement. The Fleet Management Department vets this information to ensure it is appropriate, reasonable, and aligns with the asset-specific guidance denoted in the applicable Life-cycle Report.

Process Step 3: Audit Procedure and Results

Written Guiding Principle	Review Procedure	1.1 Process Design has Adequate Controls and Aligns with Written Guiding Principles	1.2 Activity Performed Aligns with Written Guiding Principle	1.2 Activity Was Optimally Performed
AD-FM-04	The Vehicle Acquisition Request Application (VARA) Form initiated by the user department was approved by the Fleet Management Department.	Yes	Yes	Yes

Process Step 4: Purchase activities

Purchase activities are performed after the asset's replacement is approved by the Fleet Management Department, Procurement Services Department, and Board of County Commissioners. The Fleet Management Department monitors activities and provides a weekly status update to the user department.

Process Step 4: Audit Procedure and Results

Written Guiding Principle	Review Procedure	1.1 Process Design has Adequate Controls and Aligns with Written Guiding Principles	1.2 Activity Performed Aligns with Written Guiding Principle	1.2 Activity Was Optimally Performed
AD-FM-04	The fleet asset was replaced with a same/similar asset, and the replacement met the user department's needs.	Yes	Yes	Yes

Process Step 5: Asset delivery

When the fleet asset is delivered, the Fleet Management Department completes a New Equipment Receiving Verification Form that manually tracks the replacement asset's and the old asset's property control numbers as well as receipt of: keys ignition/fuel, fire extinguisher, owner's manual, insurance card, license plate, and registration. Once new asset preparation is complete, the Fleet Management Department requests the user department to pick it up. Standard Operating Procedure FM-06 requires the user department to return the old asset before the Fleet Management Department releases the replacement asset. There is a process for extending the old asset's return date which is documented and approved on a Fleet Reissue Surplus Tracker Form. This Form manually tracks the new asset's and the old asset's property control numbers.

If the old fleet asset's overall condition and reliability is not ideal for the asset to remain in the fleet inventory, the asset is sold at auction. Disposition of an asset requires the Board of County Commissioners' authorization.

Process Step 5: Audit Procedure and Results

Written Guiding Principle	Review Procedure	1.1 Process Design has Adequate Controls and Aligns with Written Guiding Principles	1.2 Activity Performed Aligns with Written Guiding Principle	1.2 Activity Was Optimally Performed
SOP-FM-06	The replacement asset was not released to the user department until the old asset was returned to the Fleet Management Department (or an extension was pre-approved).	No	No	No

Process Step 6: Asset disposition

After an asset is sold at auction:

- The Fleet Management Department records disposal of the asset (an inventory record) and the sales proceeds (a financial record) in the Asset Works M5 System. The sale proceeds amount is recorded in the Asset Works M5 System even in those instances when the sale proceeds are credited back to an original funding source that falls outside of the Fleet Replacement Program.
- The Fleet Management Department prepares an Auction Evaluation Spreadsheet using information gathered from the auction house listing. The Spreadsheet includes the old asset's property control number and the net sale proceeds. The Spreadsheet is routed to the Clerk of Circuit Court's Finance Department to record disposition of the asset (an inventory record) and sale proceeds (a financial record). In Oracle, the Clerk of Circuit Court credits the sale proceeds to the asset's original funding source.

The asset disposition activity has two controls designed to identify financial recordkeeping errors. A monthly reconciliation that validates financial recording of the sale proceeds; and a true-up procedure that compares the replacement cost to the total monthly replacement charges collected plus net sale proceeds and interest earned. The Fleet Management Department's inconsistent performance of the reconciliation procedure and a lack of supporting documentation of the true-up procedure hampers the Department's ability to identify financial recordkeeping errors.

When the true-up procedure identifies a replacement collection overage, the credit can be refunded back to the user department's operating budget or carried forward to apply towards the purchase of a future asset. When a replacement collection shortage is identified, the user department is required to make up the difference. The user department can either make a payment from its operating budget or offset the shortage by using a credit from the sale of a previously sold asset.

Process Step 6: Audit Procedures and Results

Written Guiding Principle	Review Procedure	1.1 Process Design has Adequate Controls and Aligns with Written Guiding Principles	1.2 Activity Performed Aligns with Written Guiding Principle	1.2 Activity Was Optimally Performed
SOP-FM-12	The asset was properly marked as disposed in the Asset Works M5 System and in the Oracle record.	Yes	Yes	Yes
SOP-FM-12	The monthly reconciliation was performed to validate the total net sales proceeds recorded in the Auction Evaluation Spreadsheet agrees with the Oracle general ledger.	Yes	No	N/A
N/A	True-up procedure was performed to identify any gap between the total monthly replacement charges collected plus net sale proceeds and the asset replacement cost.	<i>Incomplete written guiding principles.</i>	<i>Unable to test due to a lack of recordkeeping.</i>	N/A

1.1 PROCESS DESIGN

Audit Procedures

The Audit Team identified the risks and controls environment and evaluated if the design of the Fleet Replacement Program's fleet assets disposal through replacement process: has adequate controls, aligns with applicable written guiding principles, and provides reasonable assurance of the Fleet Replacement Program's sustainability.

Results

Overall, the disposition through replacement process is designed to reasonably provide an adequate control structure that aligns with applicable written guiding principles and ensures sustainability of the Fleet Replacement Program. However, the process lacks a control to prevent disbursement of a replacement asset to a user department prior to the user department returning the old asset (process step 5).

The means that the Fleet Management Department performs and tracks the overarching true-up process individually and holistically is cumbersome, time consuming and susceptible to human error.

Recommendation

Consideration should be given to:

- Implementing a preventative control that ensures the Fleet Management Department receives the old asset prior to releasing the replacement asset to the user department; and
- Implementing written guiding principles for the true-up procedure.

Managements Response

- Concur, Fleet Management Standard Operating Procedure (SOP) #6 dated February 12, 2020, section 5 was updated to provide additional procedures for in-processing new vehicle and equipment assets. On one occasion a verbal approval was not fully documented to approve a priority request from a front-line department director.

Target Completion Date: Effective date of policy revision – February 12, 2020.

- Concur, Fleet Management Standard Operating Procedure (SOP) #12 dated February 12, 2020, section 6 was updated to provide additional procedures to true-up post auction proceeds. On one occasion Fleet did not validate that their auction proceeds memorandum was properly followed.

Target Completion Date: Effective date of policy revision – February 12, 2020.

1.2 ACTIVITIESAudit Procedures

From August 1, 2018, to July 31, 2019, 132 Fleet Replacement Program assets were disposed of. The Audit Team randomly selected a sample of five. Walk-through audit procedures were performed to provide a reasonable level of assurance that Program activities aligned with applicable written guiding principles and were optimally performed.

Results and Recommendations

Overall, the activities performed reasonably aligned with written guiding principles and were optimally performed. Three exceptions were identified as follows.

1. The method used by the Fleet Management Department to adjust monthly replacement charges in the Asset Works M5 System is manual, labor-intensive, and time-consuming (process step 1).

Recommendation - To streamline operations and improve efficiencies, when a group of assets requires an adjustment resulting from a change in a replacement fund formula input, consideration should be given to performing a mass upload of the changes in the Asset Works M5 System.

2. For new assets entering the Fleet Replacement Program, discounting the monthly replacement charge by the estimated salvage rate and also crediting sale proceeds to that same funding source gives the funding source (user department) double credit for salvage (process step 6).

Recommendation - Consideration should be given to using a salvage rate of zero in the Fleet Replacement Formula in those instances when a Fleet Replacement Program asset is purchased with funds that fall outside the Program.

3. The asset disposition activity has two controls designed to identify financial recordkeeping errors. The Fleet Management Department's inconsistent performance of the reconciliation procedure and a lack of supporting documentation of the true-up procedure hampers the Department's ability to identify financial recordkeeping errors. (process step 6).

Recommendation - Consideration should be given to more consistently performing asset disposition controls.

4. The true-up procedure is not yet fully matured (process step 6).

Recommendation - Consideration should be given to implementing a true-up procedure that pulls data from the Asset Works M5 System and from the Oracle records using the property control number of the old and corresponding replacement asset as a common denominator. Tracking via an asset's property control number can provide information such as asset replacement information, the disposition of overages and shortages, disposition of sale proceeds, and an ability to analyze trends and fine-tune forecasting.

Managements Response

1. Concur, Fleet Management's current management information systems (Asset Works M5 System version 17.04.) does not provide group updates. Fleet will coordinate with Asset Works for a solution and we are hopeful that a future version of our software will provide for group updates.

Target Completion Date: As applicable, a system update that facilitates the improved efficiency.

2. Concur, Fleet Management is coordinating with the Management and Budget Department to determine the most effective method to use to capture salvage rate for new assets.

Target Completion Date: September 15, 2020.

3. Concur, Fleet Management Standard Operating Procedure (SOP) #12 dated February 12, 2020, section 6 was updated to provide additional procedures to true-up post-auction proceeds. On one occasion, Fleet did not validate that their auction proceeds memorandum was properly followed.

Target Completion Date: Effective date of policy revision – February 12, 2020.

4. Concur, Fleet Management's current management information systems (Asset Works M5 System version 19) does not provide automation to pull Oracle records to perform this function. Current true-up procedures are highlighted in Fleet Memorandum #5 dated September 27, 2019 (page 3 through page 7) and Fleet Management Standard Operating Procedure (SOP) #12 dated February 12, 2020, section 6. The Fleet Management Department will explore less labor-intensive methods with our fleet information system vendor (Asset Works M5 System) and other possible solutions to streamline true-up procedures.

Target Completion Date: December 15, 2020.

AUDIT COMMENT 2

FLEET REPLACEMENT PROGRAM SUSTAINABILITY

AUDIT COMMENT

In conformance with Administrative Directive FM-04, the Fleet Replacement Fund Model was used to predict fleet asset replacement costs for the fiscal year 2020 and 2021 two-year budget cycle. The fiscal year 2020 Fleet Replacement Program's beginning balance had sufficient funds to cover the anticipated replacement costs for fiscal years 2020 and 2021.

DISCUSSION

The Fleet Replacement Program's ability to meet the upcoming two-year budget cycle for fleet asset replacement requirements (of approximately \$28.5 million) relies on the accuracy of the Fleet Replacement Fund Model, collection of monthly replacement charges, and reliability of the Asset Works M5 System's inventory records. The Model consists of four key inputs: inflation, interest, salvage rate, and asset life-cycle. The fiscal year 2020 Program's beginning balance was approximately \$37.1 million.

2.1 Fleet Replacement Program Predictions

Audit Procedures

There was a population of 132 Fleet Replacement Program assets disposed of between August 1, 2018, and July 31, 2019.

1. To determine reliability of the Fleet Replacement Fund Model, its projected salvage rate was compared to 122 of the 132 assets in the population (as 10 did not have a salvage value – 2 assets were stolen and 8 were traded-in).
2. To determine reliability of the Fleet Replacement Fund Model, its projected life-cycle was compared to the total population of 132 assets' years in service.
3. To provide a reasonable level of assurance that the Fleet Replacement Fund Model accurately predicted sufficient funds availability to cover replacement costs, the Audit Team selected from the population of 132 disposed of assets, all 72 license-tagged assets that were replaced. The Audit Team calculated the total collections received (monthly replacement charges plus net sale proceeds) and compared the combined total to the assets' total replacement cost. Interest earned was not included in the test procedure because it was .05%, which was not a material amount.

Results

Test results indicate that the Fleet Replacement Fund Model's prediction for fiscal years 2020 and 2021 was reliable. It accurately predicted salvage proceeds and life expectancy. The actual salvage sale proceeds were, on average, about 6% more than the projected salvage rate. The actual years in service, in most instances, aligned with the projected life-cycle. The replacement fund formula accurately predicted (within 2%) sufficient funds available to cover actual replacement costs. No material concerns were identified during testing.

Recommendation

None

2.2 Monthly Replacement ChargesAudit Procedure

To ensure the Fleet Replacement Program's fund is properly replenished by monthly replacement charges, the Audit Team traced the fiscal year 2020 predicted average monthly revenue to the total collection amount recorded in the Oracle financial record for the month of October 2019.

Results

No material concerns were identified. The October 2019 monthly replacement charge collections were appropriately recorded in the Oracle financial record in an amount that materially agreed with the Fleet Replacement Fund Model's estimated monthly replacement charges.

Recommendation

None

2.3 Asset Works M5 System Inventory RecordsAudit Procedure

To provide a reasonable level of assurance that the Asset Works M5 System's active asset inventory records are reliable, on September 19, 2019, the Audit Team performed a three-way match of the full population of approximately 2,250 fleet assets in the Fleet Replacement Program recorded in the Oracle asset record, Asset Works M5 System, and the Fleet Replacement Fund Model.

Results

No material concerns were identified. The active fleet asset inventory record in Oracle, the Asset Works M5 System, and the Fleet Replacement Fund Model were materially the same. Minor discrepancies were discussed with management.

Recommendation

None