



OFFICE OF THE
City Auditor

Fleet Services Branch Follow-up Audit

November 9, 2009

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

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Summary for City Council

Fleet Services provides comprehensive equipment services for all City Departments, EPCOR, Alberta Health Services, Edmonton Public Library, and the Edmonton Police Service. During the past two years Fleet Services have made a number of significant organizational changes in response to the Office of the City Auditor's (OCA) recommendations and their own management assessment of opportunities to improve Fleet Services' performance. Fleet Services continues to work on increasing productivity and obtaining management information that will allow them to set service delivery performance targets. We believe this will translate into more cost effective operations and improved service to customers.

The Fleet Services Branch Follow-up Audit is a report on the status of Management's implementation in response to the twelve recommendations made in the 2007 Mobile Equipment Services Branch Audit and to City Council's 2008 motion calling for the Branch to reduce its 2009 budget by \$4 million in costs.

Through Council directed motions, budget expenditures were reduced by \$2.0 million in 2008 and another \$4.0 million in 2009. The OCA confirmed that these reductions were included in the finalized 2008 and 2009 operating budgets. As part of these savings, Fleet Services management demonstrated improved mechanic productivity with an estimated net cost avoidance of \$1.5 million once fully implemented. Although budget reductions are shown for the 2009 Fleet Services Budget, the actual amount of program efficiency savings will not be known until after the 2009 fiscal period. As of September, Fleet Services is projecting an \$8.1 million favorable budget variance for 2009, \$5.6 million of which is due to a reduction in fuel costs.

Fleet Services' budget expenditures have grown in the last two years as a result of several key factors such as City fleet growth, inflation, and increasing fuel costs. The above-mentioned Council directed savings have reduced the increase by \$6.0 million for a net budget expenditure increase of \$30.2 million.

Each new piece of equipment bears the financial burden of ongoing operating costs and future replacement costs increasing the City's future funding requirements. Fleet growth is driven by the Operating Departments and approved by City Council. As Fleet Services further improves productivity and reduces equipment downtime, the utilization of the current fleet will improve. This should result in fewer Operating Department requests to Council for additional equipment.

Of the twelve recommendations, nine have been completely satisfied and three are in progress. The OCA will monitor the progress towards full implementation of these recommendations and report the results to Council.

Improvements have been made by Fleet Services in customer communications as illustrated by greater customer engagements in projects, customer forums and surveys. Fleet Services has improved a number of key processes such as equipment planning,

inventory control, and warranty recovery.

Fleet Services is working to address system performance reporting issues, which have created a barrier to measuring operational performance and reporting on productivity and equipment downtime. This lack of ability to measure and monitor operational performance has prevented Fleet Services from establishing operational baselines which are necessary to establish reasonable service delivery targets.

Fleet Services, working with Finance staff, has addressed the long-term cash flow planning requirements and have established a Fleet Replacement Reserve as approved by Council on October 14, 2009. Also, Fleet Services has committed to an implementation date of January 1, 2010 for a new pricing model for all customers, which we believe, can simplify billing and ultimately reduce costs.

1. Introduction

In July of 2009, Mobile Equipment Services (MES) changed its name to the Fleet Services Branch. Fleet Services provides comprehensive equipment services for all City Departments, EPCOR, Alberta Health Services, Edmonton Public Library, and the Edmonton Police Service.

On October 17, 2007, we issued the Mobile Equipment Services Branch Audit Report, which contained twelve recommendations. This follow-up audit report summarizes Management's implementation status for each of the twelve recommendations made in the original report. It also summarizes the status of the following motions passed by City Council in December 2008:

1. That the Corporate Services Department 2009 Operating Budget – Mobile Equipment Services be reduced by \$4,000,000 including a reduction in non-cash charges by \$2,000,000 and efficiencies, and be allocated to the tax levy.
2. That the City Auditor verify the Mobile Equipment Services efficiencies and report to Audit Committee in November 2009.

During the past two years, Fleet Services Branch has made a number of significant organizational changes in response to our recommendations. They have also conducted their own management assessment of opportunities to improve Fleet Services' performance. This baseline work was used to launch the MES Transformation Project, through which Fleet Services would renew its business.

2. Performance Update

2.1 Summary of the Original Report

The objective of the 2007 MES Branch Audit was to provide assurance that services were being delivered in an effective, efficient and economical manner and determine whether risks were being managed to an acceptable level. In order to meet this objective we assessed operational and financial performance, safeguarding of assets, and reviewed the governance framework and business model.

We concluded that the Branch was delivering economical services as demonstrated by life cycle-costing of equipment and comparison of the Branch shop rates to that of industry shop rates, however we recommended the Branch adopt American Public Works Association¹(APWA) standards for shop rate comparison. We observed that the Branch mechanic productivity was declining and recommended that the Branch work to monitor and improve productivity levels. We also observed that the Branch lacked the ability to

¹ The American Public Works Association is an international educational and professional association of public agencies, private sector companies, and individuals dedicated to providing high quality public works goods and services.

measure and monitor equipment downtime, which was an important performance measure for the Branch customers.

We observed multiple vehicle makes and models within the City's fleet and recommended that the Branch develop a business case to rationalize consolidation of vehicle makes and models to achieve cost savings. We also reviewed the Branch's planning process for new equipment and found many customers unhappy with replacement times.

We surveyed the Branch's customers in order to understand how well they were meeting customer expectations and found that service expectations were not well defined. We recommended that the Branch work with their customers to define service delivery targets such as equipment service turn-around times, service overdue rates, and spare equipment ratios. Through interviews with customers we noted that engineering support services were strained and recommended to the Branch that these service levels be reviewed. We also recommended that the Branch conduct meaningful customer surveys to assess how well they are meeting customer needs.

We reviewed the Branch's Enterprise² fiscal policy requirements and were satisfied with compliance to this policy. We observed that the Branch used three pricing models as part of their chargeback system, which we believed needed to be simplified. We also recommended that the Branch work with the Finance Branch to develop a rolling 10-year cash flow statement of financial needs and funding sources. We reviewed and tested the Branch's equipment inventory records and observed inconsistencies in electronic data records. We recommended that the Branch work with its customers to periodically conduct a physical inventory of vehicles and equipment.

Finally, we reviewed the business "enterprise" model for service delivery which we believed work reasonably well; however, we recommended that the Branch establish a steering committee of customer representatives to provide direction on future service delivery.

2.2 The Fleet Services Branch

Since 2007, the City's fleet of vehicles has grown significantly in response to growth demands as shown in Table 1. In 2007 Fleet Services managed 3,658 units of equipment and in 2009 they will manage 4,259 units. Correspondingly the budgeted resources needed to operate and maintain these vehicles have increased from \$108.6 million in 2007 to \$138.8 million in 2009 (although 2009 projections appear less due primarily to lower fuel costs). An expanded analysis of the factors increasing Fleet Services budgeted costs is included later in this report.

² Enterprise is a business model where an organization operates within a municipal policy framework, but also has additional or supplementary policy such as operating as a full cost recovery entity.

Table 1: Fleet Services Branch Operating Budget

	2007	2008	2009	2007 to 2009 Change
Fleet Size (equipment units)	3,658	4,050	4,259	601
Budgeted Expenditures (\$ millions)	\$108.6	\$124.5	\$138.8	\$30.2
Actual Expenditures (\$millions)	\$113.2	\$131.5	*\$130.7	\$17.5
Positions (Full time equivalents)	531	588	618	87

*2009 Projected Expenditures

The Fleet Services Branch operates as a non-tax levy entity, or an enterprise, in that all its services are charged back to internal and external customers. Internal customers include all civic departments, the Edmonton Public Library, and the Edmonton Police Service. External customers include EPCOR and Alberta Health Services. Through this business model, internal customers can control consumption levels for Fleet Services which directly impact their program tax levy budget. The Fleet Services Branch controls how effectively and efficiently its resources are used which additionally impacts the City's tax levy.

2.3 Scope and Methodology

The OCA met with Fleet Services staff to gather information and review results on progress for each of the twelve recommendations identified in the original audit report. Information was corroborated with additional sources where possible. We additionally surveyed Fleet Services customers to further discuss the customer impact and changes made by Fleet Services. After undertaking these tasks the OCA was able to determine whether management has satisfactorily completed each recommendation.

3. Council Directed Savings

3.1 2009 Budget Council Motion

In November 2008, City Council approved a motion calling for the Branch to reduce its 2009 budget by \$4 million in costs and transfer the money through the departments for tax levy savings. These savings were to be achieved by a \$2 million reduction in depreciation charges and \$2 million in efficiencies savings. The motion also directed the OCA to verify these efficiency savings.

The Fleet Services' approved Expenditure Budget (2007-2009) has increased by \$30.2 million. In order to fully understand how savings were achieved we conducted an analysis of the Fleet Services Budget changes as discussed in the following section.

3.2 Fleet Services Budget Changes

Fleet Services' budget expenditures have grown in the last two years as a result of several key factors such as City fleet growth, inflation, and increasing fuel costs. The above-mentioned Council directed savings have reduced the increase by \$6.0 million for a net budget increase of \$30.2 million from 2007 to 2009. In Table 2 below we have provided a summary of factors contributing to this increase.

Table 2 – Budgetary Increase Factors (In million of dollars)

	2008 Budget	2009 Budget	Total Increase From 2007
City Fleet Growth	8.9	4.0	12.9
Inflation	7.3	6.8	14.1
Fuel	1.8	6.3	8.1
Fleet Services Internal Changes	0	1.1	1.1
Subtotal	18.0	18.2	36.2
Budget Reductions	(2.0)	(4.0)	(6.0)
Net Expenditure Increase	16.0	14.2	30.2

- City Fleet Growth:** A major factor contributing to budget increases for Fleet Services is the City's fleet growth. As shown in Table 2, the City's fleet growth has increased by \$12.9 million in the last two years alone. Since 2007 the number of equipment units serviced by Fleet Services fleet has grown by 601 units for services such as an enhanced snow removal program, transit service and waste transfer to Ryley, Alberta.

Fleet growth is driven solely by customer demand in response to their increasing service programs. As additional fleet is brought on, Fleet Services corresponding must increase their program resources to maintain and fuel these new units, which in turn increases the City's budget funding requirements. The decision to acquire new equipment units exists entirely with the Fleet Service customer. Individual funding requirements are identified during the Operating Budget process in service packages.

These individual requirements are then consolidated and brought forward by Fleet Services as a single Capital Budget request.

Each new piece of equipment bears the financial burden of ongoing operating costs and future replacement costs increasing the City's future funding requirements. Fleet growth is driven by the Operating Departments and approved by City Council. As Fleet Services further improves productivity and reduces equipment downtime, the utilization of the current fleet will improve. This should result in fewer Operating Department requests to Council for additional equipment.

- **Inflation:** Inflation cost increases includes increases in labour, material, and contract services and are driven by external market forces. Over the past two years, inflation, which excludes fuel costs, has added \$14.1 million in costs to the total Fleet Services expenditures budget. This represents a 16.5% increase over base costs if we exclude fuel costs from the Fleet Services budget. Although, the City has little control over inflation cost increases, it can control overall consumption levels of these resources.
- **Fuel:** In 2007 the City's fuel budget was \$22.9 million and in two years this budget increased to \$31.0 million (\$8.1 million increase or 35%). Fuel prices spiked in mid-year 2008 and have since declined as illustrated by the projected 2009 fuel cost shown in Table 3. To allow for accurate fuel budgeting and to minimize yearly price fluctuations, Fleet Services has worked with Finance and Treasury on a fuel hedging program for future fuel purchases.

Table 3 - City Fuel Costs

	2007	2008	2009	2007 to 2009 Change
Budgeted Fuel Cost (\$ millions)	\$22.9	\$24.8	\$31.0	\$8.1
Actual Fuel Cost (\$ millions)	\$24.2	\$32.9	*\$25.4	\$1.2

*2009 Projected Actual Cost for Fuel

- **Fleet Services Internal Changes:** In 2009 internal organizational changes made by Fleet Services to renew the business through the MES Transformation Project totaled \$1.1 million dollars.
- **Budget Reductions:** In 2008 Fleet Services reduced budget expenditures by \$2.0 million as part of an efficiency reduction. Again in 2009, Fleet Services further reduced budget expenditures by another \$2.0 million and also \$2.0 million in depreciation expense thereby reducing financing costs. We confirmed that these changes were also reflected in the City's financial system (SAP) for 2008 and 2009.
- **Net Budget Expenditure Increase:** Over the last two years budget factor increases totaled \$36.2 million as shown in the subtotal in Table 2. Council directed savings in 2008 and 2009 resulted in reducing this total by \$6.0 million dollars for a Net Budget Expenditure Increase of \$30.2 million since 2007.

3.3 Efficiency Improvements

We have confirmed that Fleet Services budget expenditures were reduced by \$2.0 million in 2008 and another \$4.0 million in 2009. The second part to the 2009 Council Motion is to confirm that \$2 million of the savings were achieved through efficiency gains.

In 2008 Fleet Services worked with the strategic group Business Enterprise Services (BES) of Corporate Services to conduct a benchmark study on improving mechanic productivity, adopting a more detailed and rigorous management approach. Through this study mechanic wrench time was measured and opportunities for improvement were identified. Wrench time represents the time a mechanic spends working directly on repairs and excludes all administrative time. Following this study in 2008, the Branch added shop controllers with an estimated annual cost of \$438 thousand in an effort to reduce mechanic administrative time and increase wrench time.

In 2009 Fleet Services and BES conducted a second wrench time study to measure new results given the addition of foremen and controller positions. As shown in Table 4 Fleet Services was able to increase total mechanic wrench time by 9%. This equates to an estimated \$1.9 million in cost avoidance. Taking into account the cost of new shop controllers discussed above the net cost avoidance is \$1.5 million.

Table 4: Wrench Time – Available Time

Wrench Time	2008	2009	Change
Municipal	41%	55%	14%
Transit	54%	59%	5%
Combined- Fleet Services	48%	57%	9%

The current combined 2009 mechanic wrench time levels of 57% are a significant improvement; however, further improvements are possible. Current wrench time levels suggest that 43% of mechanic time is still being used for activities such as moving vehicles, housekeeping, parts pick up, and data entry, representing an opportunity for further savings.

Although the Fleet Services 2009 projected expenditures shown in Table 1 suggests an actual cost savings compared to the budget; the actual amount of program efficiency savings will not be known until after the 2009 fiscal period. The approved 2009 program expenditure budget is \$138.8 million and projected expenditures are \$130.7 million resulting in \$8.1 million projected savings. However as shown in Table 3 projected fuel costs for 2009 have been reduced from \$31.0 million to \$25.4 million which represents \$5.6 million of the \$8.1 million in projected savings. The net result is that \$2.5 million in other savings is anticipated, based on Fleet Services 2009 expenditure budget projections.

4 Results of Follow-up Review

In this section of the report, we provide a summary of results based on our review and assessment of action taken by Fleet Services to address the twelve recommendations contained in the original 2007 MES Branch Audit Final Report.

4.1 Operational Performance

4.1.1 Audit Recommendation #1 – Shop Rate Comparison

The OCA recommends that the Branch adopt APWA practices for developing a shop rate to better gauge market competitiveness.

2007 Management Response:

Accepted.

Planned Implementation: December 31, 2007.

2009 Implementation Status - Completed

The recommendation has been satisfactorily implemented. We reviewed the Fleet Services 2007 and 2008 shop rate worksheets and observed that they were prepared using APWA methodology. As shown in Table 5, Fleet Services prepared a cost calculation of actual shop rates for 2007 and 2008. These shop rates include all direct costs such as labour and also indirect costs such as administration and facility costs which is recommended by APWA.

In 2008, Fleet Services also conducted a market survey of local Edmonton mechanic shop rates. The survey included obtaining shop rates from a variety of mechanic shops engaged in heavy duty mechanic work and light duty mechanic work. In total, twelve shops rates were acquired and an average shop rate of heavy and light duty mechanics is calculated at \$103.98 per hour, which does not include shop supply charges of approximately 10%. This shop rate is \$12.97 per hour (14%) higher than Fleet Services shop rate of \$91.01. The Fleet Services' rate of \$91.01 does include shop supply charges.

Table 5: Fleet Services Shop Rate

Year	2007	2008
Fleet Services Shop rate per hour (based on APWA calculation)	\$82.69	\$91.01
Average of Edmonton Shop Rates (based on market survey)	n/a*	\$103.98

* No market survey conducted in 2007

4.1.2 Audit Recommendation #2 – Strategic Sourcing of Vehicles

The OCA recommends that the Branch work with Materials Management to develop a business case for consolidation of vehicle manufacturers and models across the corporation.

2007 Management Response:

Materials Management has initiated a study to identify and implement innovative opportunities from a strategic procurement approach for light duty vehicles. This process will involve participation with Fleet Services and all of its customers.

Planned implementation: October 2008.

2009 Implementation Status - Completed

Fleet Services and Materials Management successfully completed this recommendation through the execution of the strategic sourcing³ of Light-Duty Vehicles (LDV) project. LDVs are defined as cars, vans, SUVs, trucks and cab & chassis up to and including a 2-ton cargo capacity. The City fleet consists of approximately 1200 LDV's with an estimated annual spend of \$8 million for purchases, rental and parts.

This project entailed a detailed spend analysis and the identification of opportunities to standardize vehicle types and ultimately, reduce total life cycle costs. Through this project, the City reduced the number of vehicle categories from 20 to 16, and the number of vehicle models from 52 to 20.

Well defined procedures for the City to use in purchasing light-duty vehicles have been prepared including the LDV vehicle purchase approval form. This approval form includes vehicle requirements identification and also a detailed needs assessment. As part of this approval form, a life cycle justification must be prepared which provides a comparison of buy, lease, or personal vehicle use. The department General Manager or designate must sign off all standard vehicle purchases and non-standard purchases must be signed off by the City Manager.

On December 4, 2008 the City Manager approved Administrative Directive A1451 "Purchasing of Light Duty Vehicles". As stated "The purpose of this Directive is to establish standards and guidelines to ensure that all light-duty vehicles purchased by the City are required and maximize fuel efficiency and environmental sustainability while achieving the lowest possible life-cycle costs and demonstrating the City's environmental leadership."

The implementation of this administrative directive and procedures began on January 1, 2009. The Corporate estimated annual savings from the strategic sourcing of LDV's is \$300,000.

³ Strategic sourcing is a systematic approach to managing the acquisition of goods and services that achieves the lowest Total Cost of Ownership, and matches internal customers' needs with marketplace capabilities.

4.1.3 Audit Recommendation #3 – Measurement of Productivity and Downtime

The OCA recommends that the Branch work with Business Enterprise Services to develop an action plan to obtain the necessary management information to facilitate:

- 1) Measurement and increases in mechanic productivity and,
- 2) Measurement and reduction of equipment downtime.

2007 Management Response:

A work plan to develop the identified management information systems will be prepared with the assistance of staff from Business Enterprise Services. Implementation of the work plan will be dependent upon overall corporate priorities for improvements of the SAP system. MES is working with other departments and SMT to provide a new transit maintenance facility. This new facility will contribute to increased mechanic productivity through a more efficient flow of vehicles during maintenance.

Planned Implementation: April 30, 2008.

2009 Implementation Status – In Progress

Fleet Services has worked with Business Enterprise Services to develop an action plan to obtain necessary management information for the measurement of productivity and downtime.

Fleet Services has also made progress in providing a new maintenance facility. In December 2008, the City purchased the already constructed Elerslie facility. Plans are under way to retrofit the facility to meet Fleet Services needs and further improve productivity.

Beginning in 2009, Fleet Services began preparing a performance scorecard which includes equipment availability for the municipal fleet. We interviewed Fleet Services' municipal customers and heard that the downtime for equipment had generally improved over the last couple of years. In addition, Fleet Services and the Transit Branch are working together to measure and share information on Transit fleet availability.

As previously discussed, Fleet Services did conduct studies on available mechanic wrench time before and after organization changes which showed an increase in available mechanic wrench time. Fleet Services continues to work on addressing system performance reporting issues which have created a barrier to measuring operational performance and reporting on productivity and equipment downtime. The OCA will monitor the implementation and results of Fleet Services planned new fleet management system to determine if management information regarding mechanic productivity and equipment downtime is provided.

4.1.4 Audit Recommendation #4 – Customer Surveys

The OCA recommends that the Branch broaden the audience and questions for future customer satisfaction surveys in order to more effectively assess how well customer needs are being met.

2007 Management Response:

Service Level Agreements are being developed to better define the relationship between the Branch and all its customers. The issue of customer satisfaction is a key consideration. Additional surveys will be undertaken involving more customers.

Planned Implementation: August 31, 2008.

2009 Implementation Status - Completed

This recommendation has been completed. Fleet Services has developed Service Level Agreements (SLA's) with its customer groups. Fleet Services management also indicated that these SLA's will be reviewed on an ongoing basis and refined to better clarify expectations.

Over the last two years, Fleet Services has held several customer forums as an opportunity to inform customers of progress in their business transformation and also to seek customer input. Additionally, in September of 2009, Fleet Services completed a web-based survey with its customers which will be conducted on an annual basis.

4.1.5 Audit Recommendation #5 – Service Delivery Targets

The OCA recommends that the Branch work with its customers to develop and set service delivery targets such as equipment service turnaround times, service overdue rates, and spare inventory ratios.

2007 Management Response:

Through the Service Level Agreement development process, the Branch and its client departments will develop service delivery targets suitable to the client's operation.

Planned Implementation: August 31, 2008.

2009 Implementation Status – In Progress

This recommendation has been partially completed to date in that Fleet Services has identified performance metrics which are included in Service Level Agreements. However, ongoing measurement of these performance metrics and establishing baselines has not yet been accomplished which are first necessary before service delivery targets can be set. Management from Fleet Services has indicated that a barrier to completing this recommendation is that the current management information system lacks the ability to report on many of these performance measures so establishing baselines and setting targets is not yet possible.

Fleet Services is currently conducting a systems review and is evaluating alternatives to better meet its reporting needs given current barriers to measuring and monitoring operational performance.

4.1.6 Audit Recommendation #6 – Equipment Needs Planning

The OCA recommends that the Branch work with customers and Corporate Business Planning Department to communicate planning requirements, procurement timelines and acquisition and capital funding sources in order to better meet both equipment replacement and growth needs.

2007 Management Response:

The Branch will work with customers to better communicate planning and procurement needs and timelines with current processes. As the strategic sourcing project moves towards implementation, the Branch will work with Materials Management and Corporate Business Planning to communicate any changes to the vehicle acquisition processes and capital budget challenges. The new Service Level Agreements will also define improved communication methodologies.

Planned Implementation: October 2008.

2009 Implementation Status - Completed

This recommendation has been met. Fleet Services have taken steps to understand, improve and communicate the procurement process with customers.

In 2008, Fleet Services, in collaboration with Materials Management, developed a vehicle procurement guide to assist customers through the vehicle procurement process. This guide provides a high level overview of the procurement process stages including the planning and budgeting process, timelines, design, purchasing, commissioning or build stage, and closing or receipt of the vehicle or equipment.

4.1.7 Audit Recommendation #7 – Warranty Program

The OCA recommends that the Branch redevelop its warranty program to ensure effective management of warranty identification and recovery, including establishing a target range (%) for expected warranty recovery.

2007 Management Response:

Accepted.

Planned implementation: March 31, 2008.

2009 Implementation Status – In Progress

Fleet Services has advanced their warranty program to include all areas of operations. Previously, an advanced warranty program existed for Transit fleet operations but not for Municipal fleet operations. Standard operating procedures have now been developed to ensure consistency across operations. Additional resources have also been assigned to manage warranty recovery programs.

Currently, warranty work orders are being identified and recovery is being tracked on a daily basis. As shown in Figures 1 and 2, warranty program results are also being summarized. These results show that Municipal warranty recovered relative to claims has continually increased since 2006. Transit warranty recovery relative to claims remains

consistently high, except for 2009 due to normal processing delays. Fleet Services indicated that warranty recovery targets will be set once baseline levels are more solidly established following the planned fleet management system implementation.

Figure 1 – Municipal Warranty Recovery

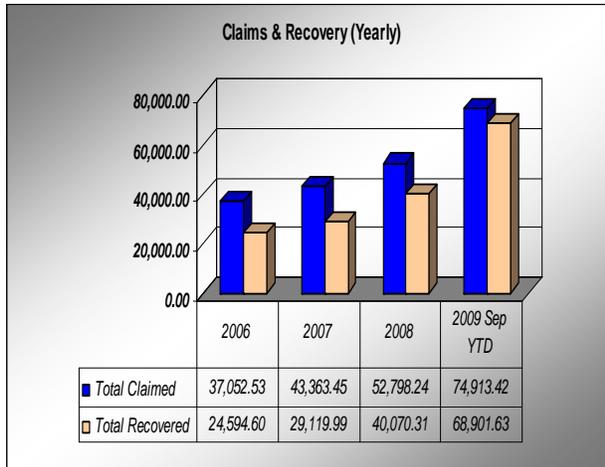
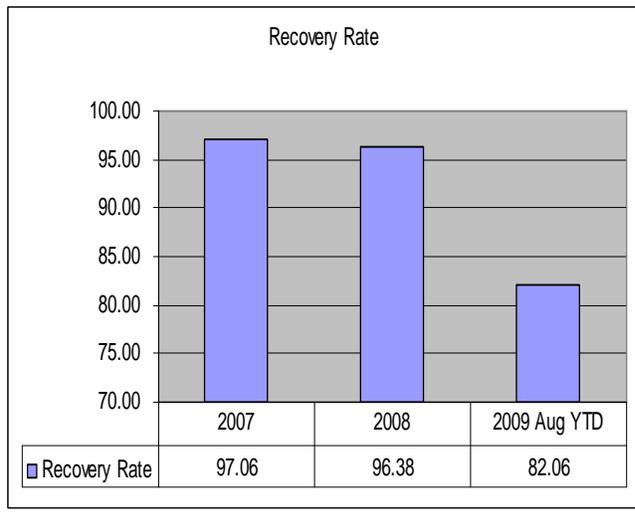
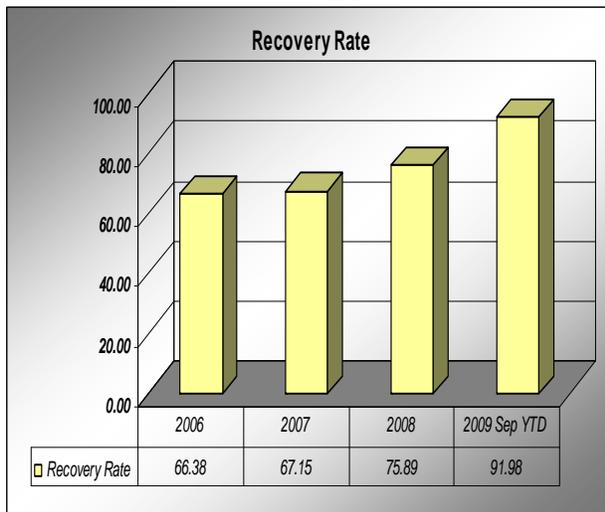
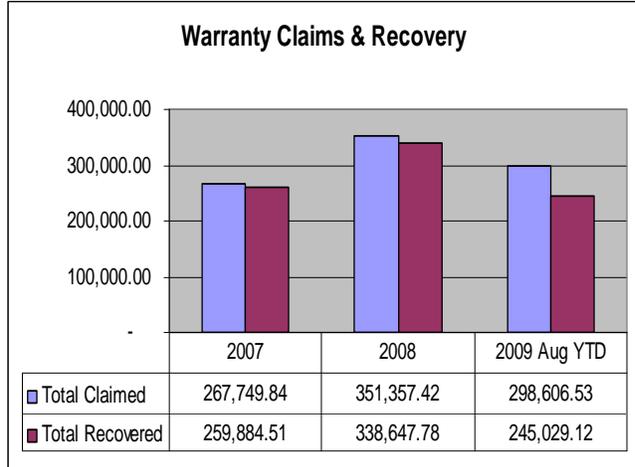


Figure 2 Transit Warranty Recovery



4.2 Financial Performance

4.2.1 Audit Recommendation #8 – Cash Flow Planning

The OCA recommends that the Branch work with the Finance Branch to develop a 10-year cash flow statement of financial needs and funding sources which should be updated annually.

2007 Management Response:

Accepted.

Planned Implementation: March 31, 2008

2009 Implementation Status – Completed

The OCA reviewed the 10-year cash flow statement that is prepared by the Finance Officer working with Fleet Services staff. Previously this document was prepared by Fleet Services Branch staff with minimal input from Finance Branch. This statement includes the actual cash flows for year 2008, projected cash flows for a ten year period (2009 to 2018) and the resulting Retained Earnings Account balances.

Under the retained earnings model, annual net operating income (which is the balance of what Fleet Services charges its customers less what it disperses for capital and operating costs) is added to the Retained Earnings Account. The Retained Earnings Account itself is simply an account which identifies monies that City of Edmonton must make available to Fleet Services for capital purchases such as City equipment, shop equipment, and computing systems. The Retained Earnings Account is not an actual reserve of dollars.

Earlier this year, Fleet Services participated in an independent review and analysis of current fleet replacement practices through which a 25-year replacement plan was produced. The resulting recommendation from the review was the need for a dedicated fleet replacement reserve which was brought forward and approved by Council on October 14, 2009. This reserve will help to ensure that the long-term funding of capital replacement needs is adequately maintained.

4.2.2 Audit Recommendation #9 – Single Pricing Model

The OCA recommends that the Branch implement a single pricing model for its entire customer base using the fixed and variable rate model.

2007 Management Response:

The Branch will work with the outstanding areas to implement a single pricing model. However this initiative will follow the completion of all service level agreements in order to ensure that the parameters of the billing model represent service standards developed in the Service Level Agreements (SLA's).

Planned Implementation: December 31, 2008.

2009 Implementation Status –Completed

Fleet Services has acted on this recommendation and plans are in place for implementation of a new pricing model starting January 2010. As described below, this new model will not be entirely a single pricing model.

In February 2009, after conducting a review on pricing models, Fleet Services presented a report recommending a new pricing model to Senior Management which was accepted. The new charge out model will include both variable rate charges for maintenance costs, and fixed rate charges for vehicle replacement funding. As part of this new model fuel charges will be billed separately as fuel prices can be highly volatile, and largely controlled by the customer usage patterns. ETS buses will not be subject to fixed rate charges, but remain funded through grant funding available for transit projects.

Fleet Services is currently making necessary system changes and is testing for capability and functionality to ensure a smooth transition to the new pricing model which starts on January 1, 2010.

4.3 Safeguarding of Assets

4.3.1 Audit Recommendation #10 – Vehicle Inventory

The OCA recommends that the Branch conduct a periodic inventory of vehicles and equipment in cooperation with user departments.

2007 Management Response:

Accepted. An annual review will commence beginning in the fall of 2007.

Planned Implementation: December 31, 2007

2009 Implementation Status - Completed

Fleet Services has satisfactorily completed this recommendation. Fleet Services is currently conducting annual equipment inventories on an exception basis. Each year Fleet Services analyzes its database of assets to determine which equipment has not had maintenance performed in the last twelve months. If no maintenance was conducted, Fleet Services follows up and performs a visual inspection of the equipment unit. This inventory inspection is conducted with the customer.

As part of this inventory review, Fleet Services prepares an inventory report on each equipment unit that it investigates which includes taking a photo for the inventory file. The OCA confirmed that this process was conducted for both 2007 and 2008 fiscal periods.

We believe that Fleet Services has met the intent of the recommendation in a manner that is efficient given that the process is exception based. Fleet Services has engaged their customers as per our recommendation. This engagement is important in making the customer aware of this risk to City assets and also that process controls are in place.

4.4 Governance and Structure

4.4.1 Audit Recommendation #11 – Fleet Support Levels

The OCA recommends that the Branch review service levels within Fleet Support to ensure that customer needs are being met.

2007 Management Response

Accepted. This review will be undertaken upon the completion of all Service Level Agreements.

Planned Implementation: October 31, 2008.

2009 Implementation Status - Completed

This recommendation has been addressed by Fleet Services who have made organizational changes to address customer support.

In 2008, the Branch hired a consultant to conduct a review of Branch operations. As a result of this review, critical issues were identified including a key recommendation calling for the Branch Manager to evaluate internal leadership capabilities and structure. The consultant stated that management should ensure the Branch is adequately staffed to ensure the needs and demands of the customers are met in a satisfactory manner. The

consultant also recommended a reorganization of the Branch to signal a business renewal to its customers.

In September of 2008, Fleet Services presented its new organizational structure which introduced new business areas within the Branch to better address fleet and facility planning needs, and also business process and performance. Additionally, the customer groups of Emergency Services and External Fleet Maintenance are now defined as a separate business area.

Fleet Services customers were interviewed and asked if they believe Fleet support services had improved. Overall, Fleet Services customers responded positively to the new Fleet Services support levels provided and indicated that they felt Fleet Services was more responsive in addressing equipment problems.

4.4.2 Audit Recommendation #12 – Steering Committee

The OCA recommends that Fleet Services establish a steering committee of customer representatives to provide direction on the delivery of equipment services.

2007 Management Response:

Accepted. The form of the steering committee and its roles and responsibilities will be defined following the development of the Service Level Agreements.

Planned implementation: October 31, 2008.

2009 Implementation Status - Completed

This recommendation has been satisfactorily completed. The intent of this recommendation was to ensure that the Fleet Services customers have input into the strategic direction of the Branch.

In July of 2008, the MES Transformation Charter was approved and included a role for Fleet Services customers to help define future Branch direction. A Client Managers Committee was established to provide advice and obtain information from direct interaction with customers and contribute to how the business model could best be implemented in an effort to meet customer expectations and needs.

In interviews with Branch customers, it was acknowledged that Fleet Services has improved communications and that the Branch Manager has done a good job in communicating organizational changes.

5. Conclusion

Of the twelve recommendations identified in the 2007 MES Branch Audit nine have been completed and three are in progress. The OCA will monitor the progress towards full implementation of these recommendations and report the results to Council.

Through Council directed motions, budget expenditures were reduced by \$2.0 million in 2008 and another \$4.0 million in 2009. The OCA confirmed that these reductions were included in the finalized 2008 and 2009 operating budgets. As part of these savings, Fleet Services management demonstrated improved mechanic productivity with an estimated net cost avoidance of \$1.5 million once fully implemented. Although budget reductions are shown for the 2009 Fleet Services Budget, the actual amount of program efficiency savings will not be known until after the 2009 fiscal period.

Fleet Services' budget expenditures have grown in the last two years as a result of several key facts such as City fleet growth, inflation, and increasing fuel costs. Above-mentioned Council directed savings have reduced the increase by \$6.0 million for a net budget expenditure increase of \$30.2 million.

Each new piece of equipment bears the financial burden of ongoing operating costs and future replacement costs increasing the City's future funding requirements. Fleet growth is driven by the Operating Departments and approved by City Council. As Fleet Services further improves productivity and reduces equipment downtime, the utilization of the current fleet will improve. This should result in fewer Operating Department requests to Council for additional equipment.

Improvements have been made in customer communications as illustrated by greater customer engagements in projects, customer forums and surveys. Fleet Services has improved a number of key processes such as equipment planning, inventory control, and warranty recovery.

The current computer information system does not provide the performance information necessary to establish service delivery targets, measure productivity and equipment downtime. Fleet Services has advanced the warranty recovery program and is working towards establishing recovery targets.

Fleet Services working with Finance staff has addressed the long-term cash flow planning requirements and have established a Fleet Replacement Reserve as approved by Council on October 14, 2009. The Branch is also moving forward to implement a new pricing model which we believe will simplify billing and ultimately reduce costs.

6. Management Response & Action Plan

The following response has been provided by Fleet Services management in response to the audit recommendations still in progress.

On October 14, 2009, City Council approved funding for a Fleet Management Information System. The RFP has been finalized and released on October 15, 2009, with anticipated implementation in 2011. Once in place, the Fleet Management Information System will enable Fleet Services to finalize the three audit recommendations that are 'In Progress', largely through the improved ability to mine data and through the elimination of operational and performance reporting barriers. Additional details:

Audit Recommendation #3 – Measurement of Productivity and Downtime

Fleet Services will be able to provide a more detailed measurement of mechanic productivity and equipment downtime using real-time data, which will contribute to productivity efficiency improvements and increased planned maintenance activity.

Audit Recommendation #5 – Service Delivery Targets

Using consistent, reliable data sources to establish baselines will allow Fleet Services to set appropriate customer service delivery targets.

Audit Recommendation #7 – Warranty Program

The new information system will be able to identify potential claims, track submitted claims from inception to reimbursement, and provide robust reporting to ensure effective management of the warranty program.