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Introduction

In accordance with the City Auditor's 2002-03 Audit Workplan, we have audited the vehicle replacement process of the Fleet Management Division (FMD) of the General Services Department (GSD). We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the GSD and Budget Office staff who gave their time, information, insight, and cooperation during the audit process.

Background

Overview

The FMD provides acquisition, maintenance, and repair services for vehicles and equipment utilized in the general fleet, special funded fleet, Police, and Fire. The general fleet refers to the City of San José (City) vehicles and equipment that the General Fund supports, except for emergency vehicles such as police patrol vehicles and fire apparatus.

The City Auditor recommended a review of the vehicle replacement process in the May 2001 audit report entitled, "An Audit of the Pretreatment Source Control Program." In that report, the City Auditor found that the Environmental Services Department purchased vehicle replacements despite low utilization of its vehicle inventory. The report also noted the City's 2002-2006 Five-Year Economic Forecast and Revenue Projections included an annual expenditure of \$2 million for general fleet replacements and a one-time expenditure of \$8.6 million to reduce the backlog of vehicle replacements. In its 2001-02 budget proposal, the FMD subsequently lowered its vehicle replacement backlog projection to \$8.2 million. Based on the 2002-2006 Five-Year Economic Forecast and vehicle backlog, in 2001-02 the FMD received an annual \$2.5 million budget for General Fund vehicle replacements, an increase of \$500,000 from the previous year.

It should be noted that the 2001-02 budget increase of \$500,000 per year for vehicle replacements was before the recent economic downturn left the City with a projected \$120 million 2003-04 General Fund budget shortfall.

Vehicle Replacement Process

Vehicle Replacement

The FMD uses the following age or mileage threshold when considering a vehicle for replacement.

FMD Vehicle Replacement Guidelines	Age	Mileage
Light Vehicles (sedans, light trucks, and vans)	10 years	100,000
Off-Road Light Equipment	8 years	N/A
Heavy Equipment	15 years	100,000
Off-Road Heavy Equipment	15 years	N/A

However, the FMD only used the age criteria to develop the \$8.2 million vehicle replacement backlog. In 2001, the FMD retained a consultant, Fleet Counselor Services, to recommend replacement alternatives that consider factors such as operation, maintenance, replacement costs, and resale value.

Audit Objective, Scope, And Methodology

The objective of our audit was to evaluate the effectiveness of the FMD's vehicle replacement process. More specifically we 1) analyzed the vehicle replacement lists to determine their necessity, 2) reviewed FMD data from vehicle auctions and the FMD fleet database, and 3) compared the FMD's replacement process, policies, and auction data to those of other jurisdictions. The scope of our audit included analyzing database information from 1998-2002 and vehicle replacement information for 2001-02. Given the magnitude of our analysis, we focused this audit on transport vehicles such as sedans, light trucks, minivans, and SUVs, in anticipation that a future audit will cover heavy vehicles and equipment.

During our audit, we visited several maintenance yards and observed firsthand the vehicles that the FMD was proposing for replacement. During one such visit, we observed 92 new police patrol sedans at the GSD's Central Service Yard waiting to be put into service. As a result of our observation, we included an analysis of San José Police Department (SJPD) patrol vehicle acquisitions in our audit scope.

Throughout our audit, we regularly met with FMD staff to better understand the intricacies of how they manage and maintain the fleet. We also met with the Budget Office to determine 1) how it approves vehicle additions, 2) what type of analysis it conducts on requested vehicles, and 3) its involvement in the vehicle replacement process. In addition, we met with each department that requested a vehicle

replacement or addition for 2001-02. The departments provided us with information to explain the necessity of the vehicles and verified the data the FMD had provided us. The FMD provided us with several updated versions of the data we requested during our audit. Our estimates are based on the latest and most accurate information available.

We also requested a full download of the FMD's fleet database, called Prototype, and we evaluated the several database renditions the FMD provided to us throughout the course of our audit. We subjected the database information the FMD gave us to extensive analysis. It should be noted that in June 2002, the FMD upgraded its database software to a Windows-based program called Fleet Anywhere. Given the newness of the database, we did not perform testing on the adequacy of controls over data entry, including passwords, approvals, and database access.

**Major
Accomplishments
Related To This
Program**

In Appendix B, the Director of General Services informs us of the Fleet Management Division's recent accomplishments.

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Finding I**Reduced Vehicle Purchases Saved The City Of San José \$11,571,897 In 2001-02. In Addition, The City Could Save Or Transfer To The General Fund \$19,278,456 From 2002-03 Through 2004-05**

During our audit of the vehicle replacement process of the Fleet Management Division (FMD) of the General Services Department (GSD), we identified over \$30 million in actual and potential savings from reduced vehicle purchases and available Fund 552 balances. Specifically, we found the following:

- For 2001-02, the City budgeted \$12,618,593 for vehicle replacements and additions - \$8,219,313 for general fleet and police vehicles and \$4,399,280 for special fund vehicles. However, we found that many of the vehicle purchases the FMD of the GSD had proposed were not immediately necessary. As a result, in 2001-02 the City was able to save the General Fund \$7,445,682 and various special funds \$4,126,215;
- We estimate that in 2002-03, the City has saved or avoided spending \$3,015,000 on vehicle replacements and maintenance staff costs and could save the General Fund up to \$7,913,456 by eliminating unnecessary vehicle purchases and using available Vehicle Maintenance and Operations Fund (Fund 552) balances;
- In recognition of our audit efforts, the Budget Office implemented a three-year plan to save the General Fund \$5,850,000 from 2003-04 through 2004-05; and
- The City may be able to save an additional \$2,500,000 by eliminating unnecessary vehicle purchases during 2003-04 and 2004-05.

In our opinion, the City should implement administrative and procedural changes to ensure that the FMD purchases only those vehicles that are economically justified and programmatically required. In addition, the Budget Office should review Fund 552 to identify opportunities to transfer any excess balances to the General Fund.

Vehicle Replacement Process

Over \$30 Million In Actual And Potential Savings

During our audit of the vehicle replacement process of the FMD of the GSD, we identified over \$30 million in actual and potential savings from reduced vehicle purchases and available Fund 552 balances for 2001-02 through 2004-05. Exhibit 1 summarizes the total vehicle savings the Auditor's Office identified.

Finding I

Exhibit 1

Summary Of Auditor-Estimated Vehicle Purchase Savings From 2001-02 Through 2004-05

	<i>Realized Savings</i>			<i>Budgeted Savings</i>	<i>Potential Savings</i>		<i>Total Estimated Savings</i>
	<u>General Fund</u>	<u>Special Fund</u>	<u>Fund 552</u>	<u>General Fund</u>	<u>General Fund</u>	<u>Fund 552</u>	
2001-02							
Vehicle Replacements	\$2,239,946	\$3,088,826					\$5,328,772
Vehicle Additions	1,220,571	1,037,389					2,257,960
Balance	3,985,165						3,985,165
Total	7,445,682	4,126,215					11,571,897
2002-03							
Vehicle Replacements	2,500,000					\$1,250,000	3,750,000
Vehicle Additions*	(130,000)	(35,000)					(165,000)
Maintenance Staff Reductions			\$255,000				255,000
Fund 552 Transfer to General Fund	425,000						425,000
Balance					\$3,124,676		3,124,676
Vehicle Replacements Acceleration						1,400,000	1,400,000
Restricted Fund 552						2,138,780	2,138,780
Total	2,795,000	(35,000)	255,000		3,124,676	4,788,780	10,922,232
2003-04							
Vehicle Replacements				\$2,500,000		1,250,000	3,750,000
Fund 552 Transfer to General Fund				425,000			425,000
Total				2,925,000		1,250,000	4,175,000
2004-05							
Vehicle Replacements				2,500,000		1,250,000	3,750,000
Fund 552 Transfer to General Fund				425,000			425,000
Total				2,925,000		1,250,000	4,175,000
Total	\$10,240,682	\$4,091,215	\$255,000	\$5,850,000	\$3,124,676	\$7,288,780	\$30,850,000

Note: Negative entries are included to account for 2001-02 vehicle purchases that were not made and subsequently were carried over to 2002-03.

For 2001-02 The City Budgeted \$8,219,313 In General Fleet And Police Replacements And Additions And \$4,399,280 In Special Funds For Vehicle Replacements And Additions

In the past, the FMD estimated the City's vehicle replacement needs and submitted a budget request to accommodate their estimates. In 2001-02, the City Council increased the annual General Fund appropriations for the replacement of general fleet vehicles from \$2 million to \$2.5 million. The City Council also approved \$1.2 million in 2001-02 for general fleet vehicle additions. Lastly, the City Council appropriated almost \$4.5 million for San José Police Department (SJPD) vehicle replacements. In total, the 2001-02 budget included over \$8.2 million for general fleet and SJPD vehicle replacements and additions and over \$4.3 million for special funds vehicle replacements and additions.

Actual 2001-02 Saving Of \$11,571,897

The details shown in Exhibit 1 are explained below. In 2001-02, we found that \$6,225,111 of the \$6,998,742 budgeted for general fleet and police vehicle replacements and all of the \$1,220,571 budgeted for general fleet additions were unnecessary. This saved the General Fund a total of \$7,445,682 in 2001-02. Additionally, \$3,088,826 of the \$3,276,891 budgeted for special fund vehicle replacements and \$1,037,389 of the \$1,122,389 budgeted for special fund vehicle additions were not required. This saved the special funds \$4,126,215 in 2001-02.

In recognition of our audit efforts, the Budget Office reduced the FMD vehicle maintenance staffing levels by \$255,000. In addition, the Budget Office 1) initiated a temporary freeze on vehicle purchases and reduced the 2001-02 SJPD patrol vehicle budget, 2) developed a three-year plan to temporarily eliminate the annual vehicle replacement budget of \$2.5 million starting in 2002-03, 3) used \$1.25 million of Fund 552's unrestricted fund balances to fund vehicle replacements starting in 2002-03, and 4) transferred \$425,000 from Fund 552 to the General Fund starting in 2002-03.

SJPD Patrol Vehicle Expenditures Were Reduced By \$3,985,165 In 2001-02 And May Be Potentially Reduced By \$3,124,676 In 2002-03

The FMD is responsible for accurately projecting and purchasing patrol sedan replacements for the SJPD. According to the Police Officers' Memorandum of Agreement (MOA), the FMD needs to consider a variety of factors for the replacement of police vehicles including mechanical assessments of the vehicle's condition, vehicle mileage, and vehicle age. However, we found that the FMD did not follow the MOA's requirements and replaced police sedans before they reached the FMD's replacement guideline of 100,000 miles. Furthermore, the FMD's purchasing practices led to the FMD accumulating an inventory of 84 SJPD patrol sedans at the GSD's Central Service Yard.

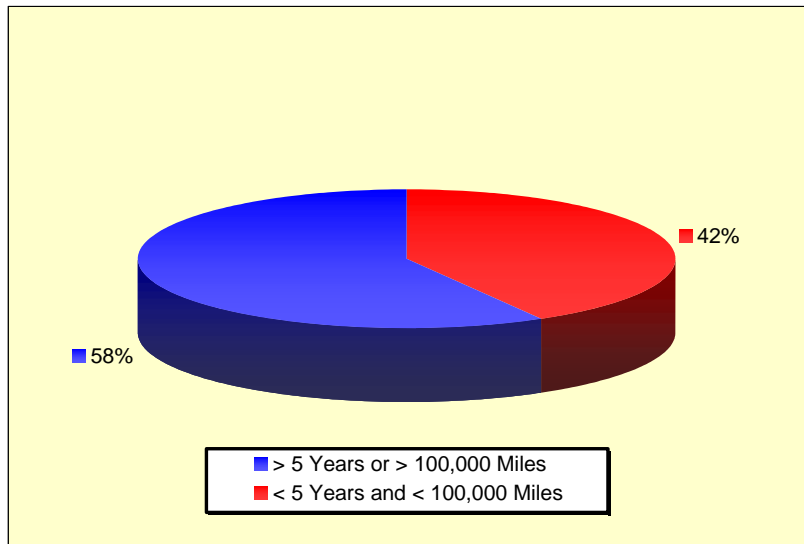
The FMD Did Not Consistently Follow Their Own Replacement Policy Or The Requirements Of The MOA

According to the MOA, the FMD must evaluate the following factors in determining when to replace police vehicles:

1. Mileage on the vehicle;
2. Age of the vehicle;
3. Assessment by City mechanics as to the useful life remaining for such vehicles;
4. Any concerns or comments voiced by officers operating such vehicles; and
5. Practices in other law enforcement agencies regarding replacement of similar vehicles.

In addition to the above criteria, the FMD also has a patrol sedan replacement policy of five years/100,000 miles. In the 1993-94 Adopted Operating Budget, the GSD addressed the appropriateness of this standard by writing, "Vehicle Maintenance staff has determined that it is within the mechanical capability of all current vehicles to have usage extended to these new levels while remaining safe for patrol service." However, this policy has not been consistently followed. Of the 317 patrol vehicles that were removed from service from January 1998 through June 2002 for which we had complete information, 132 (42%) were under 5 years old and had less than 100,000 miles as shown in Exhibit 2.

Exhibit 2 1998-2002 Patrol Sedans Removed From Service



In addition, contrary to the MOA requirements, the FMD did not perform mechanical assessments to determine if SJPD patrol sedans needed to be replaced. As a result, the FMD replaced patrol sedans that were in good mechanical condition. The FMD removed from service some SJPD patrol sedans that had as little as 58,000 miles simply because they met the FMD’s five-year policy. Some of the patrol sedans removed from service were in such good condition that the FMD redeployed them into other City departments. In our opinion, the FMD should consistently follow their replacement policy and the MOA requirements when considering SJPD patrol sedans for replacement.

We recommend that the Fleet Management Division:

Recommendation #1

Consistently implement their replacement policy as well as all of the MOA’s requirements into its replacement process for police patrol sedans. (Priority 1)

*The FMD
Accumulated An
Inventory Of 84 New
SJPD Patrol Sedans*

Currently, the FMD projects the number of SJPD patrol vehicles that will be needed over a five-year period. The FMD submits this projection to the Budget Office as part of the annual appropriation approval process for SJPD patrol vehicle purchases. We found that, with regard to SJPD patrol vehicles, the FMD 1) overstated the number of patrol vehicles needing

replacement; 2) overestimated the number of patrol vehicles needed for replacing wrecked patrol sedans¹; and 3) purchased patrol vehicles more than a year prior to their anticipated in-service date. As a result, the FMD had accumulated an inventory of 84 new SJPd patrol sedans.

In 2001-02, the Budget Office budgeted nearly \$4.5 million for SJPd vehicle replacements, most of which were patrol sedans. During this year, the FMD projected that it would need to replace 95 SJPd patrol sedans. However, the FMD's projection of 95 SJPd patrol vehicles did not properly account for the inventory of 84 new police patrol sedans that were stored at the GSD's Central Service Yard and had yet to be put into service.

When we shared our findings with the FMD, the SJPd, and the Budget Office, they agreed that the current inventory of new SJPd patrol sedans should be used to reduce the SJPd's 2001-02 budget for police vehicle replacements by \$3,985,165.

In addition, in 2002-03, the Budget Office approved over \$4.2 million for SJPd vehicle replacements that included 97 patrol sedans. However, this budgeted amount also overstated the number of patrol sedan replacements needed in 2002-03.

We estimate that the FMD's inventory of 84 vehicles will accommodate all of the SJPd's patrol sedan replacement needs for 2001-02 and most of the replacement needs in 2002-03. However, according to the FMD, a 5 percent "replacement contingency" of patrol sedans is needed to address vehicle losses due to accidents and mechanical failures. Such a contingency would require the City to purchase up to 18 patrol sedans in 2002-03. However, our analysis indicates that this "replacement contingency" may not be necessary given the generous size of the "operational contingency" as detailed in the next section. Therefore, using the latest replacement policy proposal the FMD submitted to us, we believe that the FMD should purchase no more than 5 replacement patrol vehicles for 2002-03. If the FMD only purchases 5 replacement patrol vehicles in 2002-03, then the number of patrol sedans needed would be reduced by 92 vehicles which would result in a

¹ Each year, the FMD has purchased 15 additional vehicles in order to account for vehicles that are lost in accidents or sustain major mechanical failures. However, it should be noted that only 4 patrol sedans were declared total losses in 2001-02.

savings to the General Fund of \$3,124,676. In total, by not purchasing any patrol sedans during 2001-02 and reducing the patrol sedan purchases in 2002-03 from 97 to 5, the General Fund will save \$7,109,841.

The FMD And SJPD Need To Maintain A More Appropriate Contingency Level Of Police Patrol Sedans

According to the FMD and the SJPD, the SJPD maintains a 15 percent (about 48 vehicles) “operational contingency” for patrol vehicles to account for vehicles out-of-service for repairs or maintenance. This 15 percent “operational contingency” level has been in effect for over 27 years. In addition to these 48 “operational contingency” vehicles, the FMD usually purchases 15 (4 percent) “replacement contingency” vehicles per year to accommodate vehicles permanently taken out-of-service due to accidents or major mechanical failures. The FMD is proposing to replace its current practice of purchasing 15 SJPD patrol vehicles per year to maintaining a vehicle “replacement contingency” of 5 percent of the SJPD’s patrol fleet or 18 vehicles. This 5 percent “replacement contingency” would be in addition to the SJPD’s 15 percent “operational contingency” of patrol vehicles. Essentially, the FMD’s proposal would result in the City maintaining a 20 percent patrol sedan contingency for the SJPD’s patrol vehicles, or about 66 patrol sedans.

After reviewing the MOA, we found that it directs the SJPD to follow the Los Angeles Police Department (LAPD) and the California Highway Patrol (CHP) regarding vehicle parts and vehicle specifications. Therefore, we benchmarked these two agencies to see if the SJPD replacement and operational contingencies were comparable. We found that the CHP keeps a 5 percent patrol vehicle contingency and the LAPD keeps a 10 percent patrol vehicle contingency.

We also discovered that due to a SJPD policy change which discourages high speed chases, the number of total vehicle losses related to wrecks has dramatically decreased. In 2001-02, the SJPD only lost 3 vehicles to wrecks and 1 to vandalism. In our opinion, the generous size of the “operational contingency” should be able to temporarily absorb any unanticipated vehicle losses without negatively impacting police services. Furthermore, given that the SJPD’s “operational contingency” was established over 27 years ago and the percentage is greater than both the LAPD’s and the CHP’s, we feel the “operational contingency” itself should be evaluated for its appropriateness.

We recommend that the Fleet Management Division, San José Police Department, and the Budget Office:

Recommendation #2

Determine an appropriate “operational contingency” of police patrol sedans that can meet operational and unexpected replacement needs. (Priority 2)

City Departments Did Not Need To Replace Most Of The Vehicles Budgeted For Purchase In 2001-02 Which Saved The General Fund \$3,460,517 And Various Special Funds \$4,126,215

An important component of effective fleet management is the acquisition and maintenance of an appropriate vehicle fleet size. Each year the City budgets for vehicle replacements and additions to the general fleet and special funds.² In 2001-02, the City increased the budget for general fleet vehicles to address the FMD’s reported \$8.2 million vehicle replacement backlog. Altogether, the City’s 2001-02 budget for vehicle additions and replacements totaled over \$8 million. However, we found that most of the vehicles that the FMD planned to purchase were not immediately needed. By not making these purchases, the General Fund saved \$3,460,517 and various special funds saved \$4,126,215.

The FMD Overstated The Extent Of The Vehicle Replacement Backlog

The Budget Office increased the 2001-02 general fleet replacement budget based on FMD’s calculation that the City faced an \$8.2 million vehicle replacement backlog. According to the FMD, “Currently there is a general fleet replacement backlog of \$8.2 million. This backlog negatively impacts the ability of the City to deliver core services by reducing the availability of vehicles.” However, we determined that the FMD overstated the need to replace \$8.2 million general fleet vehicles and equipment because it used inaccurate data and a flawed methodology.

According to the FMD’s guidelines, vehicles are eligible for replacement once they reach 10 years of age or 100,000 miles. The FMD, however, used only the age criteria to determine the vehicle replacement backlog. Doing so erroneously assumed that each transport vehicle 10 years or older needed to be replaced regardless of its condition or usage. For example, the backlog list included a 15 year-old sedan with only 24,052 miles. This vehicle was used an average of only 1,603 miles per year. The backlog list contained numerous

² The general fleet consists of non-emergency vehicles funded by the City’s General Fund. Police patrol sedans and other emergency vehicles are not included in the general fleet. Special fund vehicles are non-emergency vehicles funded through capital or special funds.

vehicles with low utilization simply because they met the FMD's minimum age requirement. Further, the FMD's own procedures require that they do a mechanical assessment on vehicles scheduled for replacement to determine their condition. However, the FMD did not do mechanical assessments on 162 (89%) of the 182 rolling stock vehicles on the backlog list. In addition, only 11 of the 20 vehicles for which the FMD did perform mechanical assessments indicated the existence of mechanical problems. Finally, all nine of the vehicles that the FMD assessed to be in good mechanical condition were still on the vehicle replacement backlog list.

The FMD also used incorrect data to compile its backlog list. As a result, the backlog list included vehicles that did not meet either the 100,000 mileage or 10-year age requirement. For example, the list contained a three-year old car with less than 14,000 miles. The FMD also mistakenly included special fund vehicles on its general fleet backlog list. In total, we estimated that 29 of the 182 vehicles (16%) on the FMD's backlog list should not have been included in the list. In our opinion, these factors led to a significant overstatement of the City's vehicle replacement backlog with a resultant unnecessary increase in the 2001-02 General Fund vehicle budget.

Ironically, while the FMD's vehicle replacement backlog list was the basis for increasing the 2001-02 vehicle replacement budget, the FMD did not include many of the backlog vehicles on the 2001-02 list of vehicles it proposed to purchase as replacements. Specifically, we found that the FMD included only 37 of the 129 (29%) general fleet backlog vehicles on its 2001-02 vehicle replacement list. Conversely, the FMD excluded 92 (71%) of the 129 general fleet vehicles on its backlog list from its 2001-02 vehicle replacement list.

Given the problems we found in the FMD's reported vehicle replacement backlog list and the City's current budget constraints, we analyzed the FMD's proposed 2001-02 vehicle replacement lists to determine if the vehicles warranted immediate replacement. Specifically, we asked City departments to explain the necessity of each requested vehicle replacement and what the impact of not replacing the requested vehicle would be on their ability to deliver services. We also subjected each vehicle on the 2001-02 replacement list to a series of filters to assess the need to replace the vehicles. The series included the filters listed in Exhibit 3.

**Exhibit 3 City Auditor Filters Used To Prioritize 2001-02
Vehicle Replacements**

- FMD's mechanical assessment of the vehicle.
- Vehicle maintenance costs per mile were within one standard deviation of the mean for each type of vehicle class (e.g., sedans, passenger trucks, arrowboard trucks, and trucks with mounted equipment).
- The vehicle did not meet FMD's replacement guidelines and was less than ten years old or had less than 100,000 miles.
- Vehicle utilization was below the City's policy as stated in the City Administrative Manual that assigned vehicles should be driven 9,000 miles per year.
- The requesting department had other similar vehicles that could be more efficiently utilized.

Using the series of filters listed above and the departments' responses to our question regarding the need to replace the vehicles, we found that most of the vehicles on the replacement lists did not warrant immediate replacement.

After we shared our analysis with the Budget Office, they froze all vehicle replacements and purchases during 2001-02 until the FMD and the City Auditor's Office could agree on an appropriate 2001-02 vehicle replacement list. The Budget Office also approved a limited number of vehicle additions on an exception basis. It should be noted that because of a misunderstanding between the FMD and the Budget Office, the FMD spent \$448,119 on vehicle replacements after the Budget Office froze all vehicle purchases in 2001-02. Even after these expenditures, we estimate that reduced vehicle replacements and additions in 2001-02 saved the General Fund and various special funds a total of \$7,586,732. Specifically, the decrease in vehicle purchases saved the General Fund \$3,460,517, and saved special funds \$4,126,215.³

³ It should be noted that because the FMD changed its vehicle replacement lists several times during our audit, our estimate is based on the latest and most accurate and complete vehicle purchase information available.

An Estimated \$10 Million Resides In Fund 552 Balances Which The City Could Use For Future Vehicle Purchases Or Transfer To The General Fund

Fund 552 allows the FMD to purchase vehicles and equipment from a centralized funding source. The General Fund and some special funds provide revenue for Fund 552. By identifying and implementing an appropriate vehicle replacement process, the City can use the surplus funds in Fund 552 for future vehicle purchases or transfer those funds to the General Fund.

During the 2001-02 mid-year budget process, the Budget Office transferred an additional \$1.4 million from the General Fund to Fund 552 to help the FMD initiate the process of purchasing replacements for the following year. According to the Budget Office, this transfer allows the FMD to have vehicles available for delivery at the beginning of the next fiscal year. In our opinion, this \$1.4 million should be returned to the General Fund because 1) the Budget Office already budgeted \$1.25 million for 2002-03 replacements and 2) the 2002-03 fiscal year has already started and therefore, advanced purchase is not an option.

For 2002-03, the Budget Office has projected Fund 552 will have an unrestricted fund balance close to \$5.5 million. As mentioned previously, the City plans to utilize some of this money to fund vehicle replacements through 2004-05. However, the funds are currently available for potential transfer to the General Fund if the City Council deems it necessary to do so.

Including the \$3,124,676 in 2002-03 SJPd patrol sedan replacement savings, we estimate that \$10,413,456 resides in Fund 552 and is available for potential transfer to the General Fund or for use in subsequent budget years.

In his annual budget message, the Mayor stated, “The City Manager has been working with the City Auditor on a thorough review of funding for vehicle replacements and additions. The Manager has already taken steps that have achieved some savings to help offset the current deficit identified. There are more potential savings that will be identified in more detail when the Auditor completes his report to Council. The Manager is directed to include additional savings realized before September 2003 in calculations for the EFB.”⁴ In our opinion, the Budget Office should review Fund 552 to see if further transfers can be made to the General Fund, and identify

⁴ Ending Fund Balance (EFB).

the appropriate balances needed to maintain Fund 552's encumbrances and unrestricted funds.

We recommend that the Budget Office:

Recommendation #3

Review Fund 552 to identify opportunities to transfer any excess balances to the General Fund. (Priority 2)

Finally, on November 14, 2002, the City Manager issued a message to City employees which stated in part:

“The Budget Office has completed preliminary projections that indicated a General Fund shortfall of approximately \$63 million for the coming 2003-04 fiscal year. This is the worst fiscal situation faced by the City in at least a decade. We had hoped for improvement in the economy by this time, but there are still no signs of recovery in our local economy and most economists now predict that a significant recovery in the technology sector is at least one to two years away.”

Given the City's budgetary situation, it is imperative that the City purchase only those vehicles that are justified and constitute an efficient use of its resources. The Mayor also stated in his annual budget message:

“Even with this restraint, however, we still face deficits in the coming year. In these challenging economic times, however, we need to do more with less. We need to seek efficiencies, focus on our highest priorities, and make smart investments for our future.”

Further, the City imposed a hiring freeze for City employees on November 30, 2001. In September 2002, the City formed a committee composed of the City Manager's Office, and the Budget Office to review City department or office requests to fill vacant positions. In our opinion, the City should form a similar committee to review all vehicle and equipment purchases. Such a committee would ensure that 1) the City makes only essential vehicle and equipment purchases, 2) Fund 552 will be used effectively for vehicle and equipment purchases, and 3) Fund 552 will have sufficient funds available for future purchases or possible transfers to the General Fund.

We recommend that the City Manager:

Recommendation #4

Formalize the current freeze on all vehicle and equipment purchases. (Priority 1)

Recommendation #5

Form a committee to review department requests for exemptions from the vehicle and equipment purchasing freeze. (Priority 2)

CONCLUSION

Our audit of the vehicle replacement process of the Fleet Management Division of the General Services Department identified over \$30,000,000 million in actual and potential saving from reduced vehicle purchases and available Fund 552 balances for 2001-02 through 2004-05.

RECOMMENDATIONS

We recommend that the Fleet Management Division:

Recommendation #1

Consistently implement their replacement policy as well as all of the MOA's requirements into its replacement process for police patrol sedans. (Priority 1)

We recommend that the Fleet Management Division, San José Police Department, and the Budget Office:

Recommendation #2

Determine an appropriate "operational contingency" of police patrol sedans that can meet operational and unexpected replacement needs. (Priority 2)

We recommend that the Budget Office:

Recommendation #3

Review Fund 552 to identify opportunities to transfer any excess balances to the General Fund. (Priority 2)

We recommend that the City Manager:

Recommendation #4

Formalize the current freeze on all vehicle and equipment purchases. (Priority 1)

Recommendation #5

Form a committee to review department requests for exemptions from the vehicle and equipment purchasing freeze. (Priority 2)

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Finding II

The General Services Department's Fleet Management Division Needs To Improve Its Administration Of The City's Vehicle Fleet And Develop An Appropriate And Effective Vehicle Replacement Process

The General Services Department's Fleet Management Division (FMD) administers the replacement process for the City's 1,600 non-emergency vehicles. To ensure that the City of San José (City) resources are efficiently used, the FMD should replace City vehicles using consistent and appropriate criteria. However, we found that:

- In the absence of a Citywide policy, the FMD has not developed or implemented a consistent vehicle replacement process;
- The FMD has allowed departments to use replacements and loaned vehicles to add vehicles to the City's fleet, thereby circumventing the Budget Office approval process; and
- The FMD has not adequately maintained and used database information to effectively and efficiently administer the vehicle replacement process.

As a result, the City has unnecessarily purchased vehicle replacements. These unnecessary vehicle replacement purchases have added to the cost of maintaining and operating the City's fleet and have not promoted the efficient use of City vehicles. In our opinion, the City Manager should develop and implement an appropriate Citywide vehicle replacement policy to guide the vehicle replacement process. By so doing, the FMD will have a consistent and appropriate method to identify those vehicle replacements that are critical to the delivery of City services and the City will have added assurance that its vehicle replacement purchases constitute an efficient use of City resources.

The FMD Administers The Replacement Process For The City's More Than 1,600 Non-Emergency Vehicles

The FMD provides acquisition, maintenance, and repair services for the following:

- General Fleet Vehicles and Equipment;
- Police Marked and Unmarked Vehicles;
- Fire Fleet and Equipment; and
- Special Fund Supported Vehicles and Equipment.

For the most part, the FMD tries to implement the following replacement schedule:

FMD Vehicle Replacement Guidelines	Age	Mileage
Light Vehicles (sedans, light trucks, and vans)	10 years	100,000
Off-Road Light Equipment	8 years	N/A
Heavy Equipment	15 years	100,000
Off-Road Heavy Equipment	15 years	N/A

According to the FMD staff, they use the above criteria when developing their annual general fleet vehicle replacement list. The FMD also reviews the previous year's vehicle replacement list to identify any vehicles or equipment that were not replaced. The FMD also adds to the replacement list those vehicles that were removed from service due to major mechanical failure or accidents. The FMD creates a tentative vehicle replacement list which it distributes to the user departments for input. The departments review the list and provide feedback to the FMD. The FMD then ranks the vehicles or equipment giving the highest priority to vehicles that are out-of-service, followed by those with the highest maintenance costs. Finally, FMD staff stated that they consider vehicle/equipment age, mileage, and mechanical assessments.

According to FMD staff, they provided mechanics with a document that lists items to review in order to assess a vehicle's overall condition. The form the mechanics use documents major repairs over the past 12 months, the appropriateness of the unit's use, and whether the mechanics believe that the vehicle should be retained another year. Specifically, the assessment should include an evaluation of the condition of the engine, transmission, chassis/frame, and body.

According to the FMD and the Budget Office, the special fund replacement list was developed in a different manner than the general fleet replacement list. Departments submitted their list of replacements to the FMD. The FMD then compiled the

proposed special fund vehicle replacements and submitted the list to the Budget Office. The Budget Office approved or denied the request depending on available funding. The Budget Office returned the list of approved vehicles to the FMD. The FMD begins the purchasing process upon receipt of the approved list.

The State bid prices for vehicles typically arrive in October or November of each year. At this point, the FMD finalizes both replacement lists and begins the acquisition process. The entire process, from vehicle ordering to receiving, takes about 14 to 18 months.

In The Absence Of A Citywide Policy, The FMD Has Not Developed Or Implemented A Consistent Replacement Process

Although the FMD is responsible for establishing the vehicle replacement list and acquiring the vehicles on it, the City’s Administrative Manual does not address the process or procedure for replacing vehicles. In addition, the Administrative Manual does not outline what City departments and offices should do to ensure that their requested vehicles are needed.

The FMD has been working on a Citywide vehicle replacement policy for several years. In 1995, as part of its major accomplishments, the Fleet Manager stated that the FMD was, “Developing a Request for Proposal to have a consultant assist with the re-evaluation of the City’s vehicle replacement criteria.” In the absence of a Citywide policy, the FMD formulated replacement guidelines to use in making replacement decisions and eventually hired a consultant to assist in the process. However, we found that the FMD did not consistently follow its own guidelines and the results of the consultant analysis were of limited usefulness.

The FMD Did Not Consistently Follow Its Vehicle Replacement Guidelines To Replace Vehicles And Conduct Mechanical Assessments

The FMD’s guideline for considering the replacement of transport vehicles⁵ is 10 years or 100,000 miles. According to FMD procedures, the FMD also performs a mechanical assessment of each vehicle considered for replacement to determine the condition of the vehicle. The FMD’s planned 2001-02 general fleet and special fund vehicle replacements contained 45 transport vehicles. However, of these 45 vehicles, 14 did not meet either of the FMD’s replacement guidelines. In fact, 3 of the vehicles on the replacement list were in service for

⁵ Transport vehicles consist of those vehicles designed for transporting passengers, such as sedans, pick-up trucks, minivans, or SUVs.

less than 10 years and had less than 35,000 miles on them. Several other vehicles on the replacement list that were assigned to the Fire Department had only four years of service and 94,000 miles. These vehicles fell far below the FMD’s replacement guidelines.

Our analysis of the FMD’s vehicle auction data also verified that the FMD did not consistently follow its replacement criteria. Of the 82 non-police transport vehicles that the FMD sold at auction from 1999 to 2002, 9 (11%) fell below the FMD’s age and mileage replacement guidelines, as shown in Exhibit 4. According to FMD records, the FMD removed these vehicles from the City fleet, sold them at auction, and replaced them with new vehicles.

Exhibit 4 Summary Of City Vehicles Sold At Auction From 1999 to 2002 That Were Below The FMD’s Age Or Mileage Replacement Guidelines

Vehicle Type	Age	Mileage	Date Removed From Service
TRUCK, MINI PICK-UP	7	90,893	February 1, 1999
SEDAN, FULL-SIZE	9	96,199	July 7, 1999
SEDAN, MID-SIZE	9	56,000	October 3, 2000
SEDAN, MID-SIZE	9	36,539	October 4, 2000
SEDAN, MID-SIZE	7	62,948	October 23, 2000
SEDAN, MID-SIZE	7	71,946	November 2, 2000
VAN, MINI PASSENGER	7	68,697	June 27, 2001
VAN, MINI PASSENGER	9	98,948	July 11, 2001
TRUCK, PICK-UP	6	44,797	October 2, 2001

We found that for the 41 transport vehicles the City sold at auction during 2001-02 that we included in our review, the FMD performed only one mechanical assessment. A mechanical assessment would have documented whether the vehicle needed to be replaced. Accordingly, the lack of mechanical assessments may have caused the City to auction off vehicles that did not need replacement.

Although mechanical assessments are part of the FMD’s vehicle replacement procedures, the FMD performed mechanical assessments on only 52 of the 142 (37%) vehicles on the 2001-02 vehicle replacement list. Furthermore, 31 of the 52 (60%) mechanical assessments the FMD did perform

indicated the vehicles were in good condition or had only minor mechanical issues. We also noted that none of the 52 mechanical assessments the FMD did had any indication of supervisory review and the FMD did not input the results of any of these mechanical assessments into its fleet database for replacement process purposes.

By not incorporating these mechanical assessments into the vehicle replacement process, the FMD replaced some vehicles that were in good mechanical condition. Likewise, the FMD may have left vehicles in poor mechanical condition off the replacement list. Numerous organizations, including the California Department of Consumer Affairs and the American Automobile Association, recommend the use of mechanical assessments to ascertain the condition of vehicles and the cost to repair any problems. Some recommendations instruct the evaluator to:

- Perform an engine compression test;
- Perform a contamination diagnosis of oil and fluids;
- Check fan and belts, electronic system, power steering, air conditioner, and transmission; and
- Check cooling system, braking system, and suspension.

Furthermore, the “Manual of California City and County Fleet Management Practices and Performance Measures,” details best management practices to help local governments improve their fleet management. According to this manual, vehicle evaluations should be performed on vehicles considered for replacement. These evaluations should include an analysis on whether the vehicle should be retained, replaced, or repaired. In our opinion, the FMD should consistently follow its own prescribed procedure to conduct a comprehensive mechanical assessment that is documented on each vehicle considered for replacement.

Likewise, the general fleet replacement standards should also be strictly applied to special fund vehicles. However, we have found that the City does very little review prior to approving special fund vehicle replacements. Prior to our involvement, the City budgeted about \$3.3 million during 2001-02 for special fund vehicle replacements. However, during our audit of the vehicle replacement process, we found that because of a miscommunication between the FMD and the Budget Office, the City was not reviewing any special fund vehicle purchases.

Specifically, the FMD was under the impression that the Budget Office analyzed all special fund vehicle replacements and the Budget Office thought the FMD reviewed all special fund vehicle replacements.

Without sufficient review and information, the City replaced special fund vehicles even though they did not meet the FMD's replacement criteria. For example, in 2001-02 the Code Enforcement Division submitted a request to the Budget Office to replace an eight-year old special fund vehicle stating, "The current vehicle has over 60,000 miles, has been increasingly out of service for major repairs, has deteriorated from use, and is unreliable for staff..." Without the FMD's database information to verify the accuracy of these assertions, the Budget Office approved the replacement. However, we found that this vehicle averaged only three minor repair visits each year. Furthermore, with eight years of service and 60,000 miles, this vehicle did not meet either of the FMD's two replacement criteria - 10 years of age or 100,000 miles.

We recommend that the Fleet Management Division:

Recommendation #6

Consistently follow its vehicle replacement policy for all vehicle purchases regardless of the funding source. (Priority 2)

Recommendation #7

Consistently follow its own prescribed procedure to conduct a comprehensive mechanical assessment on all vehicles considered for replacement. (Priority 2)

The FMD's Fleet Consultant Was Unable To Provide Adequate Information To Use For The Development Of A Replacement Policy

In 2001, the FMD recognized the need for a more comprehensive vehicle fleet size and replacement analysis. Accordingly, the FMD paid Fleet Counselor Services (Consultant) over \$33,000 during 2001-02 to recommend vehicle replacement alternatives that considered operation, maintenance, replacement costs, and resale value.

The Consultant's report recommended the FMD begin to consider the replacement of sedans at 7 years, with a target of 8 years. However, we found errors in the Consultant's analysis that did not support this conclusion.

We reviewed the Consultant's methodology and found significant areas of concern. The Consultant identified the replacement cycle by using a chart to graph the hypothetical intersection of a vehicle's resale value, compared to maintenance costs. For example, the resale value and maintenance costs for sedans intersected at 8 years, and the Consultant targeted 8 years, with a window that began at 7 years. However, this methodology was flawed for the following reasons:

- The FMD did not provide the consultant with complete and accurate City fleet data. For example, the FMD did not provide information on about 9 percent of the non-emergency vehicles that were in use at the time.
- The Consultant used only some, not all, of the data the FMD provided when graphing replacement age criteria.
- The Consultant's premise for using years as a replacement guideline assumed the City vehicle fleet is efficiently utilized. However, the Consultant also noted that the City fleet is underutilized and therefore the use of years as a replacement guideline is ineffective.
- The Consultant did not consistently identify the replacement age at the intersection of resale value and maintenance costs and accelerated the replacement age.
- The Consultant used straight-line depreciation to determine the timing of vehicle replacement which ignores the fact that vehicles depreciate the most during the first years and less in later years.
- The Consultant stated that he incorporated information from 60 other cities into his analysis. However, the Consultant was unable to reproduce the source of this information for the FMD or show how he used the information in his report.

As a result, the Consultant's method for determining an age-dependant replacement zone for vehicles can be changed to accommodate different preferences. Despite these concerns, the FMD intended to use the Consultant report as a basis to reduce its current minimum replacement age from 10 to 7 years. In our opinion, neither the FMD's database nor the Consultant's report support such a reduction in the minimum vehicle replacement age.

The FMD’s Replacement Process For Transport Vehicles Should Incorporate A 100,000 Mile Minimum, Repair Costs, And Mechanical Assessments

According to the “Manual of California City and County Fleet Management Practices and Performance Measures,” vehicle replacement decisions should be based on empirical data regarding vehicle utilization, performance, and cost. Given our concerns regarding the lack of Citywide procedures, the inconsistent replacement process, and the Consultant analysis, we contacted other large jurisdictions and compared their practices to the FMD’s guidelines and the Consultant’s analysis. We also analyzed the City’s own vehicle auction data to determine how a vehicle’s age or mileage could impact auction revenue.

We obtained vehicle auction data from several jurisdictions in California, including large cities, counties, and the State, to determine the age and mileage these jurisdictions use to replace transport vehicles. We also incorporated the auction data that the FMD obtained from the Sacramento Municipal Utility District. Exhibit 5 summarizes the auction data from other jurisdictions for transport vehicles.

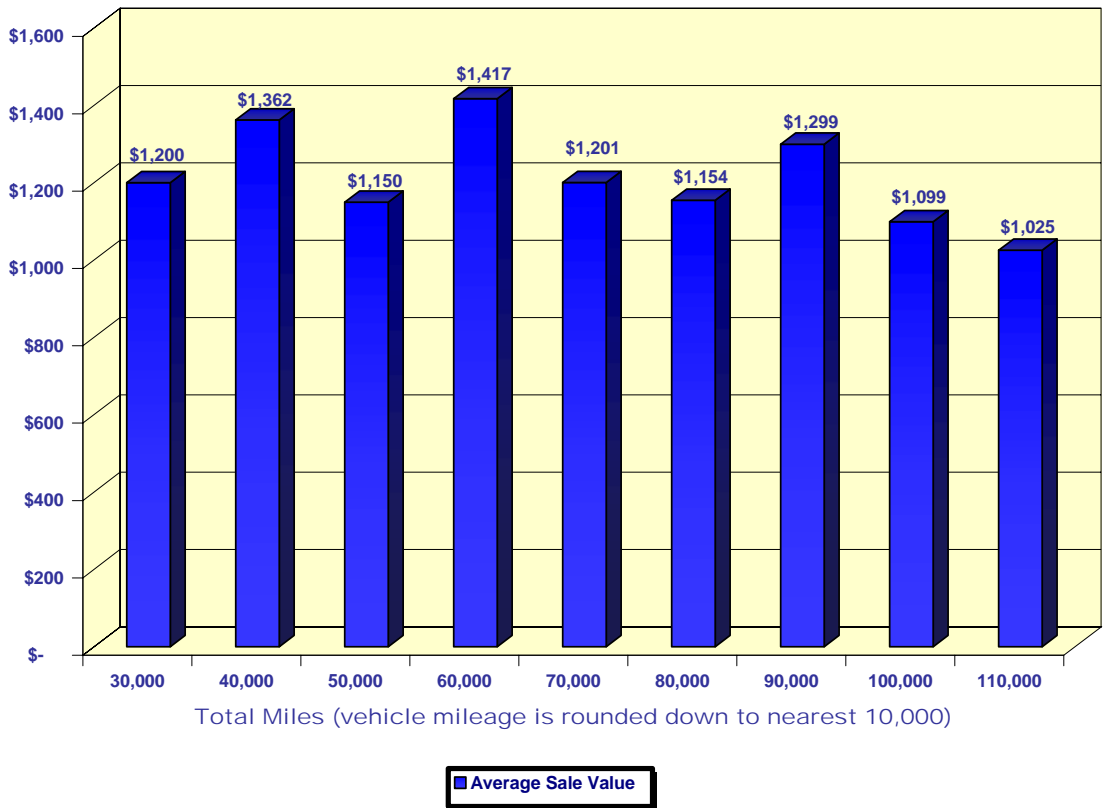
Exhibit 5 Summary Of Auction Data From Other Jurisdictions For Transport Vehicles

Jurisdiction	Average Mileage
Los Angeles	76,760
Sacramento	79,525
San Diego	74,255
Santa Clara County	83,589
State of California	111,868
Sacramento Municipal Utility District	113,079
Overall Average	89,846

Based on auction data from other jurisdictions, the FMD’s current 100,000 mile replacement guideline appears to be reasonable.

The City’s auction data indicates that transport vehicles sold for an average of \$1,237.48. Our analysis also shows that there is not a direct correlation between total mileage and the average auction sale price. As shown below in Exhibit 6, vehicle mileage is not necessarily a good predictor of auction sale prices.

Exhibit 6 Summary Of Transport Vehicle Mileage And Average Auction Sale Price From 1999 To 2002

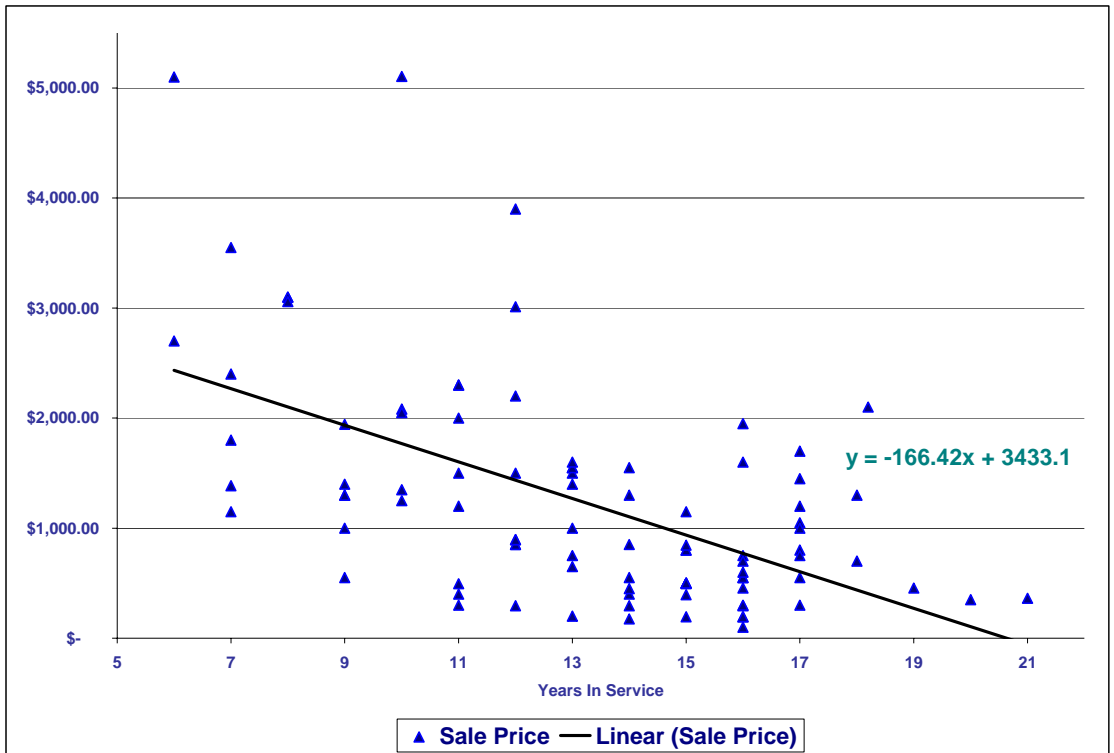


In our opinion, because auction sale prices remain relatively constant for vehicles up to 100,000 miles, the City should not replace transport vehicles that are in good mechanical condition until they reach at least 100,000 miles. This would be in keeping with the FMD’s current practice for replacing SJPD patrol sedans at 100,000 miles. Given that patrol sedans are driven harder than the average City vehicle, applying the patrol vehicle 100,000 mile criteria to the general fleet seems reasonable.

Automotive Fleet is an online fleet management publication. According to Automotive Fleet, “Generally, figure that manufacturers build vehicle components with a life of at least 100,000 miles. Expect minor component replacement at 50,000 to 60,000 miles.” It also appears that the general public tends to retain their vehicles for over 100,000 miles. In fact, a 1998 study from the United States Department of Transportation found that vehicle owners do not replace their personal cars until the vehicles reach over 100,000 miles.

However, because the City’s fleet is underutilized, the City is replacing many vehicles based on age rather than mileage. For example, the FMD replaced a nine-year old sedan with only 36,539 miles. Although this vehicle was approaching the 10-year replacement guideline, the FMD had no record of a mechanical problem with this vehicle that would warrant the replacement at such low mileage. The trend line in Exhibit 7 shows that for every year the City keeps a vehicle, the vehicle’s auction revenue decreases an average of only \$166.

Exhibit 7 Impact Of Vehicle Age On Auction Revenues



In our opinion, the average revenue decrease of \$166 for each year of service shown in Exhibit 7 does not justify the replacement of a vehicle before it has 10 years of service. Mileage, in conjunction with mechanical assessments, is a more appropriate indicator of a vehicle’s remaining useful life and does not promote the replacement of underutilized vehicles.

Another component to consider in vehicle replacement is the cost effectiveness of repairing versus replacing a vehicle. We have found that the FMD does not have a formal process to compare repair costs to a vehicle’s value prior to approving costly repairs. As a result, the FMD may spend funds to repair

a vehicle only to replace the vehicle shortly thereafter. For example, in November 2000 the FMD spent \$2,213 on bodywork for a 1993 pick-up truck. Only five months later, the FMD removed the vehicle from service and received about \$2,900 for the vehicle at auction.

During our research, we identified several jurisdictions that compare repair costs to a vehicle’s remaining value. This type of comparison indicates whether a vehicle should be replaced rather than repaired. For example, the City of Sunnyvale has a performance measure to ensure that 100 percent of vehicles are reviewed for replacement when the estimated cost to repair exceeds 50 percent of their market value. Other jurisdictions, including the federal government’s General Services Administration, also conduct an analysis to determine if vehicles should be repaired or replaced. In our opinion, the FMD should incorporate a similar analysis of accurate repair costs into the replacement process to ensure the FMD makes economical decisions to replace or repair vehicles. Accordingly, the City Manager needs to establish and implement an appropriate Citywide transport vehicle replacement policy that incorporates vehicle mileage, years in service, accurate repair costs, and a comprehensive mechanical assessment.

We recommend that the City Manager:

Recommendation #8

Establish and implement a Citywide replacement policy for transport vehicles that incorporates vehicle mileage, years in service, accurate repair costs, and comprehensive mechanical assessments. (Priority 2)

The FMD Allowed Departments To Use Replacement Vehicles And Loaned Vehicles To Add Vehicles To The City’s Fleet, Thereby Circumventing The Budget Office Approval Process

Each vehicle that the City adds to its fleet results in on-going operational and maintenance costs. These cost implications make it imperative that any increases to the City’s fleet size are justified and constitute an efficient use of City resources. The Budget Office approves augmentations to the City’s fleet through the vehicle addition process. Under this process, departments must justify each vehicle addition and detail all on-going costs associated with the requested vehicle and the funding source for those costs. However, we found that the FMD allowed departments, including itself, to use replacement vehicles and loaned vehicles, thereby circumventing the Budget Office approval process and improperly augmenting the City’s vehicle inventory.

When a department receives a replacement vehicle, the City should remove the vehicle being replaced from service and auction it for sale. In this manner, vehicle replacements will not add to the size of the City fleet. According to the Fleet Manager, the FMD requires departments to turn in their old vehicles before they can pick up new replacement vehicles. However, we found instances in which the FMD provided a new vehicle without the department turning in the vehicle being replaced. Essentially, the FMD allowed departments to keep both the old and new vehicles, thereby augmenting the size of the City's vehicle fleet without appropriate Budget Office authorization.

For example, in August 2001, the Housing Department received a new sedan to replace a nine-year old pick-up with less than 33,000 miles. The Housing Department received a second vehicle replacement in September 2001 to replace a 10-year old vehicle with only 36,016 miles. We found, however, that all four vehicles (the two replaced vehicles and the two new vehicles) were still actively assigned to the Housing Department. Essentially, the Housing Department used the replacement process to add two new vehicles to the City fleet.

Departments have also augmented their vehicle inventory through the use of loaned vehicles. According to the FMD, they will assign a pool or surplus fleet vehicle to fulfill a department's need on a temporary basis. However, we found the FMD loaned some vehicles to departments for many years. Further, some departments subsequently requested new vehicles to replace the loaned vehicles thereby avoiding the Budget Office's approval process for vehicle additions. For example, the FMD loaned temporary vehicles to the Public Works Department (Public Works) for as many as nine years. In April 1992, the FMD loaned Public Works a 1982 ex-patrol vehicle with 77,949 miles. In May 2001, the FMD finally pulled the vehicle due to "mechanical problems" when the vehicle had 94,703 miles. Public Works had driven this vehicle an average of only 1,861 miles per year from 1992 to 2001.

In 1995, the FMD loaned Public Works another ex-patrol vehicle with 130,300 miles. Public Works used this vehicle for six years, driving it an average of only 1,811 miles per year. Despite the fact that these vehicles were on loan from the FMD, Public Works requested that the loaned vehicles be replaced with permanently assigned vehicles. Public Works supposedly needed these replacement vehicles for sewer and capital

projects. The funding source for these vehicles was Capital Funds. The FMD received these two sedans in April 2001, yet Public Works did not pick them up until October 2001, or six months later. In the meantime, the vehicles sat at the General Service Department’s Central Service Yard exposed to the elements and gathering dirt, as shown below.



In an effort to identify how frequently vehicles are added to the fleet without budget approval, we determined the number of new vehicles put into service during the last four years and compared it to the number of vehicles removed from service and approved fleet additions. As shown in Exhibit 8, our analysis revealed that over the past four years, the fleet grew by as many as 121 (an average of 30 per year) vehicles without Budget Office approval.

Exhibit 8 Estimated Replaced Vehicles* Not Properly Removed From Service From 1998-99 Through 2001-02

Fiscal Year	New Vehicles Put Into Service	Vehicles Removed From Service	Budget Office Approved Vehicle Additions	Replaced Vehicles Not Properly Removed From Service
1998-99	147	82	24	41
1999-00	124	78	17	29
2000-01	170	108	45	17
2001-02	150	99	17	34
Total	591	367	103	121

*All non-emergency rolling stock excluding all police vehicles.

As shown in Exhibit 8, taking into account the 591 new vehicles the City put into service, the 367 vehicles removed from service from 1998-99 through 2001-02, and the 103 Budget Office-approved vehicle additions, the number of vehicles not properly removed from service is 121 ($591-367-103=121$).

We also noted that the FMD had incomplete and vague information on loaned vehicles. The FMD's fleet management database uses a code to note if a vehicle was on loan to a department. However, the FMD would override the code if the vehicle was considered for replacement. As a result, we could not determine the definitive number of vehicles the FMD had on loan to departments. We estimate, however, that as of 2002, the FMD had loaned as many as 71 vehicles to various City departments. The FMD's database also did not show the date the vehicles were loaned or the reason for the loan. Without sufficient and accurate information, the City cannot accurately track the number of loaned vehicles or the length of time these vehicles were on loan.

Of the 71 vehicles we estimate that the FMD had loaned to City departments, we determined that 48 were still on loan as of June 2002. Of these 48 vehicles, 19 (40%) were on loan at least since 1998 (the earliest year the FMD provided information). The 23 vehicles no longer on loan as of June 2002, were loaned from several months to four years during the period 1998 to 2002. According to the FMD's inventory data, the City added permanent replacements for three of the loaned vehicles. However, we could find no evidence that the Budget Office had approved these vehicle additions. As a result, because of inadequate FMD controls, temporarily loaned vehicles became permanent additions to the City's fleet without Budget Office approval.

Like other City departments, the FMD must seek Budget Office approval for vehicle additions. However, we found that the FMD also used replacement vehicles to add to its own vehicle fleet without receiving Budget Office approval. As a result of "An Audit Of The Pretreatment Source Control Program", in 2001, the Environmental Services Department turned over several vehicles to the FMD to use as replacements in other City programs or to dispose of through the City auction. However, the FMD retained one of the vehicles for its own fleet, even though a vehicle addition was not budgeted. Furthermore, the FMD did not identify the vehicle as a loan, but rather as an active vehicle in the FMD's fleet.

In our opinion, departments should not use loan vehicles on a permanent basis or keep vehicles after they have been replaced. Eliminating these practices will allow the Budget Office to more effectively review and authorize all additions to the City fleet.

We recommend that the Fleet Management Division:

Recommendation #9

Stop loaning vehicles to departments on a long term basis and implement a formal process for loaning vehicles, including the use of the City vehicle pool. (Priority 2)

Recommendation #10

Develop and implement procedures for the retrieval and disposal of replaced vehicles. (Priority 2)

Recommendation #11

Work with the Budget Office to develop and implement procedures to ensure all additions to the vehicle fleet receive Budget Office approval. (Priority 2)

The FMD Has Not Adequately Maintained Or Used Database Information To Effectively And Efficiently Administer The Vehicle Replacement Process

The FMD needs to ensure its database inventory of the City’s vehicle fleet is complete, accurate, and contains relevant information to help the FMD administer the vehicle replacement process. This is essential given that the FMD uses the database’s inventory listing as its primary source of information to develop the vehicle replacement list. We found, however, that the fleet database has problems which hinder the FMD’s ability to effectively and efficiently administer the vehicle replacement process. We also found that the FMD did not fully maintain and use the database information to assist in the vehicle replacement process.

When we reviewed the FMD’s database, we found several vehicles with a model year of “1900” indicating that these vehicles were over 100 years old. According to the FMD, if the FMD does not input the model year, the database automatically enters “1900” as the default. Although the FMD was aware of this default bug and could have researched and inputted the model year, the FMD still used the database’s incorrect model year to identify vehicles for its vehicle replacement backlog list. As a result, the FMD mistakenly included 1997, 1998, and

1999 model year vehicles as part of the vehicle replacement backlog. Furthermore, the FMD mistakenly included special fund vehicles in the general fleet vehicle backlog list.

The FMD's improper use of database information had a significant impact on the FMD's budget requests. As we noted in Finding I, the FMD incorrectly used the overstated vehicle replacement backlog list to project future replacement funding in the 2001-02 Adopted Operating Budget. As noted earlier, because of the FMD's vehicle replacement backlog list, the Budget Office increased the FMD's general fleet vehicle replacement budget from \$2 million to \$2.5 million beginning in 2001-02.

In addition to the FMD using its database for budget purposes, the FMD also uses its database to help manage the fleet. However, we also found that the FMD incorrectly extracted database information and did not ensure the data was complete or accurate. For example, although the database tracks mileage for each vehicle, the FMD's database includes 10 transport vehicles with no mileage information. This occurs even though the FMD services these vehicles each year and inputs their mileage information into the database. Another database report on vehicle utilization showed numerous vehicles with negative utilization. These negative utilization figures appear to be due to FMD data extraction errors. Despite these obvious database information errors, the FMD did not take sufficient steps to maintain the integrity of its database or correct the reported information. Without accurate mileage information, the FMD cannot effectively apply its replacement guideline of 100,000 miles.

We also noted that the database contains useful fields that can be incorporated into the FMD's analysis of vehicle replacement. For example, the database tracks the number of times vehicles have had repair or maintenance work, along with the cost of such work. This is useful information that can be incorporated into any vehicle replacement decisions and shared with departments. In our opinion, the FMD should use the fleet management database to generate reports with accurate information to assist them in managing the vehicle replacement process.

We recommend that the Fleet Management Division:

Recommendation #12

Review the database information to ensure it is accurate and complete. (Priority 3)

CONCLUSION

The Fleet Management Division of the General Services Department needs to improve on how they administer the City's fleet to ensure that the FMD replaces only those vehicles that are economically justified and programmatically required. In addition, the City Manager should develop and implement an appropriate Citywide vehicle replacement policy to guide the vehicle replacement process.

RECOMMENDATIONS

We recommend that the Fleet Management Division:

Recommendation #6 **Consistently follow its vehicle replacement policy for all vehicle purchases regardless of the funding source. (Priority 2)**

Recommendation #7 **Consistently follow its own prescribed procedure to conduct a comprehensive mechanical assessment on all vehicles considered for replacement. (Priority 2)**

We recommend that the City Manager:

Recommendation #8 **Establish and implement a Citywide replacement policy for transport vehicles that incorporates vehicle mileage, years in service, accurate repair costs, and comprehensive mechanical assessments. (Priority 2)**

We recommend that the Fleet Management Division:

Recommendation #9 **Stop loaning vehicles to departments on a long term basis and implement a formal process for loaning vehicles, including the use of the City vehicle pool. (Priority 2)**

Recommendation #10 **Develop and implement procedures for the retrieval and disposal of replaced vehicles. (Priority 2)**

Vehicle Replacement Process

- Recommendation #11** Work with the Budget Office to develop and implement procedures to ensure all additions to the vehicle fleet receive Budget Office approval. (Priority 2)
- Recommendation #12** Review the database information to ensure it is accurate and complete. (Priority 3)

Finding III

The Process For Adding Vehicles To The City Fleet Needs Improvement

Departments submit their requests for vehicle additions to the Budget Office. The Budget Office is responsible for reviewing and approving the vehicle addition requests. The General Services Department's Fleet Management Division (FMD) is responsible for ordering and purchasing the vehicles. However, we found that vehicle additions were not sufficiently scrutinized. Specifically, we found that:

- City departments frequently did not account for the on-going costs of vehicles when submitting requests for vehicle additions.
- City departments sometimes ordered and received more expensive vehicles than appeared necessary.
- The FMD and Budget Office need to better coordinate the flow of information to facilitate the decision making process for vehicle additions.

As discussed in Finding II, the vehicle additions process has resulted in a larger than necessary vehicle fleet and has therefore produced increased vehicle replacement, operating, and maintenance costs. The City Auditor's Office is reviewing the City's fleet inventory to identify efficiencies in the size of the City fleet and the FMD's management of the fleet program. Until a more detailed analysis of the City's fleet utilization is completed, the City's fleet will continue to be oversized. In recognition of our findings and likely downsizing of the City fleet, the Budget Office reduced the General Services Department's 2002-03 Operating Budget for vehicle maintenance staffing levels by \$255,000.

The City's Vehicle Addition Process

In order to have a vehicle added to a department's fleet, the department must submit a budget proposal to the Budget Office detailing the need and cost of the addition. The Budget Office looks at each addition on a case-by-case basis. The Budget Office does not have any formal procedures or training on approving vehicle requests. However, Budget Office Analysts visit departments to understand their programs and needs. Generally, department requests for additions are accompanied by a request for additional staff. If approved, the Budget Office sends the additions list to the FMD. At that time, the FMD

receives funding confirmation and initiates the acquisition of the vehicles.

Departments Frequently Did Not Account For The On-Going Costs Of Vehicles When Submitting Requests For Vehicle Additions

Each addition to the City’s vehicle fleet incurs additional on-going maintenance and operating costs, as well as future replacement costs. Given these cost implications, it is important that all vehicle additions be financially supported. Accordingly, the Budget Office requires that vehicle purchases show the source of funding. It is also important that requests for special fund vehicle additions delineate the funding source of on-going costs to ensure that the General Fund is not inadvertently charged for maintenance or operating costs. However, we found that departments frequently did not detail the on-going costs of the vehicles.

Exhibit 9 provides several examples of 2001-02 vehicle additions that did not identify the funding of future on-going costs.

Exhibit 9 2001-02 Requests For Vehicle Additions That Did Not Identify Funding Sources For Future On-Going Vehicle Costs

Department	Program	Vehicle
Fire	Bureau of Field Operations	\$19,000 Sedan
Fire	Bureau of Fire Prevention	\$19,000 Sedan
PRNS	Parks Maintenance	\$255,000 Trucks and Mowing Tandem
PRNS	Parks Maintenance	\$70,000 Two Trucks
Public Works	Development	\$60,000 Three Trucks

Furthermore, one of the above vehicles was for special fund or capital projects with significantly shorter durations than the FMD’s 10-year replacement guideline. Typically, even after the project is completed, the vehicle remains in the City’s vehicle fleet. If the vehicle is retained, the General Fund will likely absorb the continually-accruing costs associated with keeping a vehicle. These costs vary depending on the type of vehicle being retained.

These vehicle additions augment the City’s vehicle fleet size and impact the FMD’s ability to administer the vehicle

replacement process. In our opinion, the Budget Office should require all department requests for vehicle additions to identify the funding source and the estimated amount of on-going operating costs.

We recommend that the Budget Office:

Recommendation #13

Ensure all department requests for vehicle additions identify the funding source and the estimated amount of on-going operating costs. (Priority 3)

Some Departments Ordered And Received More Expensive Vehicles Than Appeared Necessary

To ensure the City’s vehicle funding is used efficiently and effectively, the City needs to identify and purchase the appropriate type of vehicle for City use. The vehicle additions process should standardize the types of vehicles required for specific City needs. However, we found that the City does not have a standard to assess requests for different types of vehicles and therefore, some departments order and receive more expensive vehicles than appear necessary.

Because the City does not have a standard to assess requests for vehicle additions, departments decide on the type, upgrades, and features they want included for each vehicle, independent of the review process. When the Budget Office approves vehicle additions, there is no formal process to determine the appropriateness of the type of vehicle requested. For example, in 2001-02 the Fire Department requested a vehicle addition for an outreach position. The department requested a sedan for \$19,000 and received Budget Office approval. However, the department purchased an SUV for over \$29,000 without any explanation or justification for the upgrade.

Although similar job duties should require the same type of vehicle, our review of the FMD inventory revealed that City departments were using different types of vehicles for similar job functions. For example, the Planning, Building and Code Enforcement Inspectors are each assigned a City vehicle to transport them to various sites throughout the City. Even though the nature of work is generally similar among inspectors, we found that they are assigned City sedans, pick-up trucks, and most recently, an SUV that was leftover from a grant-funded program. In another instance, an Airport vehicle (Chevy Caprice) was replaced by a larger, more expensive, and less economical SUV (Ford Expedition). Generally, pick-up

trucks and SUVs are more expensive to purchase and operate because they are not as fuel-efficient as lighter sedans.

In general, vehicles used to transport City staff to and from worksites should be standardized. For example, instead of using a smaller compact sedan, the City currently has 17 full-size Crown Victoria sedans in use throughout City departments such as the Airport; Planning, Building and Code Enforcement; Parks, Recreation and Neighborhood Services; Public Works; and Fire. City departments, including Information Technology; Planning, Building and Code Enforcement; and the Airport also have 34 SUVs for non-emergency use. These SUVs include large vehicles such as Ford Expeditions. According to industry information on maintenance, fuel, and repair costs, Crown Victorias cost an average of 8 percent more than a Ford Taurus and Ford Expeditions cost an average of 17 percent more than a Ford Taurus.

In our opinion, the FMD or the Budget Office should analyze these larger, more expensive vehicles to ensure that the City is not using such vehicles simply for transport purposes. The City should also subject all department requests for vehicles to a standardized review process to ensure that departments are using similar vehicles for similar purposes. This process should document all new vehicle requests and detail the exact need for the vehicle and its type of use. In this manner, the City can ensure that departments do not request larger or more expensive vehicles than necessary that can also be more expensive to operate, maintain, and replace.

We recommend that the Fleet Management Division or Budget Office:

Recommendation #14

Develop a process to subject all department requests for vehicles to a standardized review process to ensure that departments are using similar vehicles for similar purposes. (Priority 2)

The FMD And Budget Office Need To Better Coordinate The Flow Of Information To Facilitate The Decision Making Process For Vehicle Additions

Prior to our audit, the Budget Office approved over \$2 million in vehicle additions for 2001-02. The Budget Office needs sufficient information from the FMD to ensure that the City only adds the appropriate number and type of vehicles to the City fleet. Likewise, the FMD needs the Budget Office to provide a complete and appropriate list of vehicle additions. We found that the FMD has useful information that the Budget Office does not have. Without sufficient information, the Budget Office cannot ensure it is approving the appropriate number and type of vehicle additions to the City fleet.

The Budget Office currently approves vehicle additions on an individual basis. Departments submit all vehicle addition requests to the Budget Office. The Budget Office reviews each request for the cost, source of funding, and description of need. However, the Budget Office does not currently have a formal process to review the departmental requests for the type of vehicle, nor does the Budget Office analyze the appropriateness of the request given the City's current vehicle fleet resources. Furthermore, departments do not have this type of comparable information to incorporate into their requests for vehicle additions. While the FMD has this information, it is not part of the vehicle addition process.

For example, the FMD database contains information on the utilization of similar vehicles in the City fleet, the types of vehicles currently in use for similar jobs, and the number of vehicles in each department fleet. Therefore, if a department requests a unique vehicle for a special project, and the City's fleet already has this type of vehicle available for the department to use, then a vehicle purchase for the project could be avoided. In this manner, the cost of vehicle additions could be minimized and the City's fleet could be used more efficiently.

We recommend that the Budget Office and the Fleet Management Division:

Recommendation #15

Better coordinate the exchange of vehicle information to ensure that additions to the City's vehicle fleet are appropriate. (Priority 2)

Future Audit Work

The vehicle additions process has lead to increased vehicle replacement, operating, and maintenance costs. Until a more detailed analysis of the City’s fleet utilization is completed, the City’s fleet will continue to be oversized. In recognition of our findings and likely downsizing of the City fleet, the Budget Office reduced the General Services Department’s 2002-03 Operating Budget for vehicle maintenance staffing levels by \$255,000.

The City Auditor’s Office is also reviewing the City’s fleet inventory to identify efficiencies in the size of the City fleet and FMD’s management of the fleet program. For example, the Auditor’s Office has already begun a more detailed analysis of heavy equipment utilization and is researching additional alternatives to vehicle assignments including the use of pool vehicles and mileage reimbursement. The Mayor’s June 2002 budget message directed the City Manager, “...to continue working with the Auditor to review the possibility of fully or partially converting to a “zero fleet” system like BART recently introduced.” Toward that end, the City Auditor’s Office is analyzing the City’s vehicles and heavy equipment to 1) determine an appropriate fleet size, 2) develop a vehicle fleet management capability, and 3) ensure that future City vehicle and heavy equipment replacements and additions will be cost effective and needed.

CONCLUSION

The Fleet Management Division of the General Services Department needs to improve the vehicle additions process to ensure that additions are properly reviewed and approved. Specifically, they need to better coordinate the flow of information between the FMD and the Budget Office in order to facilitate the decision making process for vehicle additions.

RECOMMENDATIONS

We recommend that the Budget Office:

Recommendation #13

Ensure all department requests for vehicle additions identify the funding source and the estimated amount of on-going operating costs. (Priority 3)

We recommend that the Fleet Management Division or Budget Office:

Recommendation #14 **Develop a process to subject all department requests for vehicles to a standardized review process to ensure that departments are using similar vehicles for similar purposes. (Priority 2)**

We recommend that the Budget Office and the Fleet Management Division:

Recommendation #15 **Better coordinate the exchange of vehicle information to ensure that additions to the City's vehicle fleet are appropriate. (Priority 2)**

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Other Pertinent Information

The City Will Save Additional SJPD Replacement Costs By Using Standard Paint On Its Patrol Sedans

During the course of our audit, we discovered that the SJPD and the FMD ordered a custom paint for the City's police patrol sedans at an additional cost of \$712 per patrol vehicle. Over the last three years, the FMD spent an additional \$44,000 to \$85,000 per year to custom paint an average of 83 patrol vehicles per year. By switching to a standard paint for SJPD patrol vehicles and given current replacement projections, we estimate that the City would save about \$59,000 per year in paint costs.

The GSD conveyed to us that the SJPD had some concerns regarding non-custom paint quality, durability, and ease of patrol vehicle identification. We contacted Ford, the manufacturer of the Crown Victoria model used for patrol sedans, to address the SJPD's concerns. According to a Ford representative, both the custom and standard paints for patrol vehicles were of equal quality and durability. Ford also informed us that they offered several paint choices for patrol vehicles, at no additional cost. These included six different shades of blue, and the popular black or white. Some of the shades of blue were similar in appearance to the custom blue.

We reviewed this issue with the FMD, the SJPD, the San José Police Officers' Association, the City Manager's Budget Office, and the Mayor's Budget Office. All of these organizations agreed that a standard blue paint is a better alternative for SJPD patrol vehicles.

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