



HARFORD COUNTY, MARYLAND

Office of the County Auditor

February 28, 2014

Honorable Members of the County Council
Harford County, Maryland
212 S. Bond St., 2nd Floor
Bel Air, MD 21014

County Executive David Craig
Harford County, Maryland
220 S. Main St.
Bel Air, MD 21014

Dear Council Members and Mr. Craig:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the management of Harford County's Fleet Maintenance Contract. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found there are automated controls in place to ensure the services rendered and parts purchased were properly billed to the correct department. However, controls can be improved. We found that routine maintenance was not always performed timely, in accordance with the contract and fleet management best practices, nor were deviations from the approved schedule documented. Billings for both routine and non-routine services were not always sufficiently reviewed by the department liaisons to ensure service was provided and billing was proper. Finally, County owned shop equipment was not properly tagged, inventoried and recorded in accordance with the County's Risk Management Asset Management policy.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA, CGFM, CIA, CISA, CGAP, CRMA
County Auditor

cc: Ms. Mary Chance, Director of Administration
Ms. Deborah Henderson, Director of Procurement
Mr. Warren Patrick, Fleet Manager

~ Preserving Harford's past; promoting Harford's future ~





HARFORD COUNTY, MARYLAND
Office of the County Auditor

**AUDIT OF MANAGEMENT OF FLEET MAINTENANCE
CONTRACT**

Period Covered:
7/1/2011 through 11/30/2013

Report Number: 2013-A-10

Date Issued:
02/28/2014

Audit Team:

Chrystal Brooks, CPA, CIA, CGAP, CISA, CGFM, CRMA
County Auditor

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BACKGROUND INFORMATION

INTRODUCTION AND KEY STATISTICS

The Fleet Management Division of the Department of Procurement is responsible for administration and maintenance of the County's fleet. The fleet consists of over 1,100 automobiles, light trucks, heavy equipment and lawn care items operated by Harford County's Government, Sheriff's Office, Community College and Public Library. Fleet Maintenance has been outsourced to First Vehicle Services (FVS).

Under the contract, maintenance services are segregated into contract and non-contract services. Contract services include routine fleet management, preventive maintenance and repair activities that are reasonably predictable. These services are subject to an annual maximum.

Non-contract services include accident repairs, unit modifications, and repairs occasioned by vandalism, driver abuse, or acts of nature; they are variable and not predictable, but dependent on the actions or decisions of County unit operators. The County reimburses the contractor for non-target services authorized in advance by the Fleet Manager. There is no contractual maximum for non-contract services.

The total contract and non-contract amounts paid during fiscal year 2013 were \$1,970,204 and \$959,374, respectively. The non-contract amount includes approximately \$37,000 of equipment purchases.

Harford County leases the existing County-owned shop facility (including County-owned equipment, tools, etc.) located at 1807 N. Fountain Green Road in Hickory to First Vehicle Services for use under the contract. FVS may provide services at this site to other parties, with permission from the County. Currently, Aberdeen Police Department and Harford County Volunteer Fire and EMS Foundation utilize FVS' services; the County receives a commission for the services that FVS provides to those organizations.

The County uses an outsourced application called CCG to monitor the fleet management operations. First Vehicle is required to utilize this application to enter work orders and inventory information so that the County can properly track and monitor the maintenance services provided to the fleet.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to determine if the Fleet Management Division was properly monitoring the Fleet Maintenance Service contract to ensure service and payments were in accordance with the contract. The scope was limited to reviewing work orders, vehicle

maintenance schedules, receipts, bills, equipment inventory and shop equipment inventory.

The audit focused on activity during the period of fiscal year 2012 through November 2013. Our audit procedures included interviewing personnel, observation and testing. Specifically, we met with the Fleet Management Division employees to understand the procedures for monitoring the fleet maintenance contractor. Based on our understanding of the underlying processes, we selected a sample of work orders and verified the information agreed to both the supporting documentation (e.g., materials receipts, mechanic timesheets) and the billing reports. We determined if the amount billed was proper and if the service was properly categorized as contract or non-contract. We also determined if the Fleet Manager approved all non-contract services provided by the contractor. We performed these procedures to determine if amounts billed were for services actually provided and parts purchased.

We selected a sample of vehicles to determine if preventive maintenance was performed in accordance with the contract-scheduled maintenance and the other maintenance appeared reasonable. We also determined if disposal of vehicles were properly handled and related revenue was received by the County.

We selected shop equipment inventory listed in the contract and newly purchased shop equipment inventory from the receipts provided by the Fleet Maintenance Contractor to confirm their existence and to determine if they were properly recorded in the County's asset records in accordance with Risk Management Asset Management policy.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

REVIEW RESULTS

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

Our procedures disclosed there are automated controls in place to ensure the services rendered and parts purchased were properly billed to the correct department. Based on our testing, we determined the billings were properly categorized as contract or non-contract and procedures were in place to ensure all non-contract services are authorized prior to reimbursement by the County. The Fleet Manager approves all non-contract authorization forms that are brought to his attention by the contractor and reviews the non-contract billing report detail prior to it being paid.

The Fleet Maintenance Division relies on the user departments' fleet liaisons to ensure charges to their departments are for services that were actually provided; however, there are no written guidelines provided by the Fleet Management Division detailing the procedures to be followed. As a result, the departmental reviews may not be adequate.

In addition, even though the agreed upon preventive maintenance schedule is documented in the fleet management system (CCG), the schedule is not always followed and approvals for adjustments to the schedule were not documented. Any deviations to the agreed upon schedule are supposed to be authorized by the Fleet Manager. We noted the Fleet Manager considers vehicle utilization and total maintenance costs when recommending vehicles for disposal or replacement; however, final decisions on the size and age of the fleet are beyond his scope of control.

We reviewed the Fleet Utilization Report and noted that there were 824 cars and trucks in the fleet in fiscal year 2013. The average use for the year was about 8,750 miles; approximately 23% (187) were driven less than 3,000 miles in that period. Twenty-three (23) vehicles showed no mileage according to the usage report. A full analysis of the fleet's utilization is beyond the scope of this audit. We recommend management perform an analysis to determine the ideal level of utilization for each type of vehicle and to determine if the size of the fleet is appropriate.

Finally, the audit procedures disclosed County owned shop equipment inventory is not properly tagged, inventoried and recorded in accordance with the County's Risk Management Asset Management policy.

Areas for improvement are described in the Findings and Recommendations section of this report. Management has been provided an opportunity to respond this report; that response is below.

MANAGEMENT RESPONSE

Procurement has reviewed the results of the audit relating to the contract for the management of fleet maintenance. Fleet Management strives to implement “best practices” when making day to day decisions. In addition, Fleet Management will continue to partner with our using agencies to implement the areas of improvement recommended and to keep providing effective and efficient service.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2013-A-10.01 Inventory of Shop Equipment

The County did not properly account for and control shop equipment inventory used by the fleet maintenance contractor.

Analysis: Harford County has a Risk Management policy related to inventory of equipment, but the Fleet Management Division did not always follow this policy for the shop equipment used by the fleet maintenance contractor. In accordance with the fleet maintenance contract, the County provides the contractor with shop equipment including jacks, lifts, and miscellaneous tools. An audit of the inventory was conducted jointly by the parties prior to commencement of the agreement in October 2010 in order to agree which County supplied equipment is operable and usable by the fleet maintenance contractor. In addition, in fiscal year 2010, a physical inventory was completed by Harford County's Risk Management Division. However, we were informed these assets were not included in the County's Risk Management Asset System nor were they updated since fiscal year 2010. During the contract term, the County agrees to replace, at its cost, any equipment rendered unserviceable due to normal wear and tear. Additional equipment purchases must be approved by the County and included in a separate line item in the contractor's Operating Target Summary (Contract Services invoice). The Contract also requires FVS to provide a written report certifying the description, serial number, cost and date purchased. The report is to be included as an attachment to the Contract and Risk Management is to be notified of any additions/replacements.

According to the County's policy, equipment items with a cost of \$15,000 or more are capitalized and depreciated for financial reporting purposes and equipment items should be recorded in accordance with Risk Management's Asset Management Policy for inventory control and insurance purposes. Even though a paper copy of the fiscal year 2010 physical inventory is kept by Risk Management, official inventory records maintained by Risk Management did not include the shop equipment, as required. There is an increased risk that items may be lost or stolen because they are not labeled with a County property tag and counted during a periodic inventory. These purchases have been referred to Risk Management for follow-up.

In addition, the shop equipment inventory listing maintained by the Fleet Management Division does not uniquely identify (i.e., serial number) items and the item descriptions are not always current or sufficiently detailed. As required, there was a physical inventory performed at the beginning of the contract in October, however, the current inventory listing provided by the contractor does not reconcile to the original records because of the lack of

detailed descriptions. We also noted the detail equipment records were not always updated when items were disposed of or new purchases were made.

Recommendation: We recommend shop equipment used by the fleet maintenance contractor be labeled with a unique County inventory tag numbers and recorded in the County's assets, in accordance with the County's policies. We further recommend equipment inventory listings be updated with current descriptions and locations for all items in the equipment lists. Further, we recommend the shop equipment inventory listing, as agreed upon during the initial audit/physical inventory is marked as surplus, replaced or new when applicable, so that a record is maintained when the inventory changes.

Management Response: We concur with the recommendation and will schedule a meeting with Risk Management to perform an inventory in the spring.

Expected Completion Date: 06/30/2014

Finding Number: 2013-A-10.02 Variance from Maintenance Schedules

Scheduled maintenance of the County's fleet was not always performed in accordance with the contract.

Analysis: A preventive maintenance schedule was designed in accordance with recognized good fleet management practices and the original equipment manufacturers' specifications, warranties and recommendations. The schedule was agreed upon, in the contract, for all equipment listed in the vehicle inventory listing.

The fleet maintenance contractor monitors the schedule and notifies drivers when their vehicles are due for preventive maintenance. An inspection sheet is completed during each preventive maintenance service and approved by the FVS general manager.

Our audit disclosed preventive maintenance was not always performed in accordance with the maintenance schedule in the RFP. Specifically, we noted maintenance was not performed timely for 3 of the 20 vehicles tested. For example, one vehicle was serviced every 5,000 miles instead of the required 3,500 miles and another vehicle had no maintenance done during its last year of service because a part was not available. In addition, we noted one vehicle was included in the list for FVS maintenance, but should have been maintained by a dealer, per the contract.

While the preventative maintenance schedules are expected to change on occasion and Fleet

Management Division indicated they were aware of the situations mentioned above, documentation did not indicate that changes to the maintenance schedule were approved by the Fleet Manager. In addition, the fleet maintenance contractor was charged with making adjustments to the preventative maintenance schedule in the automated system.

Recommendation: We recommend any changes to the agreed upon preventive maintenance schedule be approved by the Fleet Manager and documented for future reference.

Management Response: We have reviewed the recommendation and will monitor the preventative maintenance schedules to assure best practices. In addition, any changes to the schedule will be documented via email.

Expected Completion Date: 03/01/2014

Finding Number: 2013-A-10.03 Monitoring of Fleet Services Provided

Written guidance on monitoring the fleet maintenance billings is not provided to the departmental fleet liaisons.

Analysis: The Fleet Management Division requires a fleet liaison within each department monitor their department's vehicle maintenance charges. However, there is no written guidance provided to the fleet liaisons to ensure consistent, adequate reviews. Even though the Fleet Manager performs a monthly review of the Customer Operating Statement to ensure overall charges appear reasonable, this review is not detailed enough to ensure all billings are for services actually rendered.

We contacted the 27 departments assigned fleet vehicles to determine the extent of their review processes. In all cases, the fleet liaison receives the monthly billing reports detailing the contract and non-contract charges and the related work orders for each vehicle repair/maintenance that was performed for the month. In some cases, the fleet liaison maintains a spreadsheet detailing services that were provided and they use it to reconcile to the billing statement and to the work orders. However, there are other cases where the fleet liaison receives the reports and work orders and only performs a cursory review. Since the Fleet Management Division is relying on the department liaison to ensure billings were for services rendered, the various levels of review do not provide assurance that billings are proper for each department.

Recommendation: We recommend the Fleet Management Division provide the departmental fleet liaisons with written procedures detailing the steps required for a

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complete review of services provided. Also on a test basis, the Fleet Management Division should perform a review to ensure departments are adhering to the written procedures.

Management Response: Management has recognized these findings and has offered assistance at Fleet Users Meetings. In addition, Fleet Management will be conducting work sessions to provide guidance to user agencies.

Expected Completion Date: 06/30/2014