

# **Fleet Services Audit – Phase 2**

## **TERMS OF REFERENCE**

November 8, 2022



## Background

The City's Fleet Services (Fleet) provides maintenance, repairs, replacement, purchasing and leasing of vehicles and equipment, fuel distribution and operator training services. The City's fleet is funded through revenue generated from rental rates charged to Civic Departments and Boards.

As part of the approved 2022 Audit Plan, the Independent Office of the City Auditor has commenced the audit of Fleet Services. The Phase 1 audit investigated service disruptions experienced in Saskatoon Transit in the winter of 2021-2022. This Terms of Reference ("ToR") focuses on Phase 2 of the audit and covers various services related to City's Fleet.

## Audit Objective

The objective of the audit is to assess the effectiveness, efficiency, and economy of the Fleet Services and to identify opportunities for improvement.

## Audit Scope

In preparation for the Terms of Reference, the audit team met with the Fleet Services Administration and other user departments to discuss the high-level audit objectives, scope and timings and understand key processes. The audit will include vehicles and equipment that Fleet Services has custody and control over, and the vehicles managed by the Fire Department. The audit will exclude Transit as some aspects of the Transit fleet have already been covered in Phase 1 of the audit.

The areas to be covered within the scope of the audit will include the following:

### **Purchasing, Leasing & Investment in Civic Fleet**

In 2021, The City's active fleet assets were estimated to have a replacement value of \$112.7 million. Fleet is funded through revenue generated from rental rates charged to Civic Departments and Boards. Rental rates are reviewed and adjusted to ensure sufficient funding is available for the timely replacement of vehicles and equipment in accordance with their service life expectancy. Fleet is positioned at the current funding level to replace vehicles and equipment according to the assigned life cycles. The audit will:

- Review the rental model deployed by Fleet Services to ensure that departments are not under or over-charged.
- Review and assess the rental model and determine whether the model achieves the objectives of the City, adds value and is sustainable.
- Benchmark the rental model with other comparable municipalities.
- Assess the overall effectiveness of the rental process and oversight, including monitoring rental rates and replacement reserves.
- Assess whether the replacement reserves are managed in accordance with the Capital Reserve Bylaw.
- Review to determine whether a forward plan for the replacement of vehicles is in place and budgets are appropriately managed to take account of the replacement plan.

- Review whether lease and purchase decisions are appropriately assessed to benefit the City and the department.
- Assess whether the current level of funding allows for the replacement of the fleet on time, thereby ensuring the average condition of the fleet continues to remain within the “Good” condition category.
- Review the end-of-life and disposal process to assess whether the equipment is appropriately managed to meet end-of-life and recovery objectives.
- Assess whether the procurement of parts at Fleet Services follows the procurement policy and procedures

## Repairs and Preventative Maintenance

The City’s vehicles and equipment assets are evaluated for condition based on the Estimated Service Life (ESL) of the asset compared to actual service life using either the age of the asset or the timeframe when it is estimated to reach its end-of-service life based on usage. The City has a central repair facility for servicing, maintaining, and repairing all City-owned equipment under its custody and control. It utilizes third parties for maintenance, where these cannot be performed in-house. The audit will:

- Assess whether an adequate program for maintenance is developed and adhered to for all vehicles. This will also determine whether patterns in high-maintenance and high-fail items across the fleet are identified and included in the maintenance plan. The audit will review the last two years to assess compliance with repairs and maintenance requirements. In situations where there are non-compliances with the maintenance schedule, a root cause analysis will be conducted to identify reasons for the deviation and the extent of risk it poses to the safety of the vehicles.
- Verify if daily defect reports are completed for all identified defects.
- Assess the effectiveness of the proactive monitoring procedures in relation to bringing vehicles in for repairs when due.
- Assess whether the Fleets Services conducts routine and preventative maintenance to maintain civic fleet assets in good condition.
- Determine whether key metrics such as engine faults and vehicle breakdowns are actively tracked and reported.
- Assess whether the implemented fleet management software tracks maintenance histories to assist Fleet services in developing suitable preventive maintenance schedules for the City’s fleet.
- Assess the efficiency and effectiveness of the reporting and analytical capabilities of the City’s fleet management software.
- Determine whether appropriate Service Level Agreements (SLAs) are in place for user departments and are adhered to.
- Determine the appropriateness of the work ordering system, monthly billing, and reporting processes.

## Asset Management & Monitoring

In 2021, the City's fleet consisted of 1003 active asset inventory (265 Heavy Equipment, 479 Light Vehicle, 178 Saskatoon Police Service fleet and 81 other fleet) with an estimated replacement value of \$ 112.7 million. In addition, Fire has 91 vehicles (apparatus, fleet) with an estimated replacement cost of \$ 35.51 million.

Fleet has also implemented Global Positioning System (GPS) with the installation of a GPS device in civic fleet vehicles and heavy equipment. The data and routing technology reduces unnecessary idling times and promotes efficient use of assets. The audit will:

- Determine whether the Asset Management Plan is well documented to provide information about the quantity, quality, average age, and replacement value for different asset categories and identifies service levels, risks, future demands etc.
- Assess whether Fleet Services appropriately oversees and efficiently manages all assets in the City's Fleet.
- Verify whether appropriate systems have been implemented to provide a holistic view of asset lifecycles from acquisition to usage and resale.
- Verify whether the fleet management software efficiently and effectively assists the City in monitoring fleet assets in multiple locations, organizing fleet asset portfolio, monitoring fleet life cycle costs, and tracking fleet performance to establish more efficient operations.
- Assess whether the City's Fleet aligns with the Asset Management Plan.
- Determine whether key metrics such as true idling are actively tracked and reported.

## Implementation of Electric and Autonomous Vehicles

Fleet is working with the Sustainability Department to take steps towards corporate fleet electrification to reduce fuel usage and greenhouse gas emissions. The City is developing an electrification road map/ Electronic Vehicle (EV) Strategy for community adoption to replace vehicles with electric vehicles when available. Four electric vehicles were introduced in 2020 as a pilot project to determine potential savings before expanding the fleet of electric vehicles. The pilot supports the City's Low Emissions Community Plan objectives to lower greenhouse gas (GHG) emissions and electrify the municipal fleet over the near term. The audit will:

- Assess the effectiveness of the process for the implementation of electric and autonomous vehicles;
- Assess the sufficiency of steps taken/being taken to reduce fuel usage and greenhouse gas emissions through the implementation of electric and autonomous vehicles; and
- Determine whether potential savings/savings from implementing electric and autonomous vehicles are actively tracked and reported.

## Fuel Distribution

Vehicles are fueled at City pump locations using the Fleet Services issued cards. Controls over how operators and drivers utilize and purchase fuel are critical as fuel forms a significant part of the fleet budget. The audit will:

- Determine whether the City has the necessary systems and processes to identify events that cause unnecessary fuel usage.

- Assess whether mechanisms are in place to measure, manage and reduce fuel consumption.
- Assess the extent to which fuel cards are integrated with the City's systems to monitor fuel transactions and state.
- Assess the efficiency and effectiveness of rules and notifications to manage speeding and idling proactively.
- Determine whether key fuel metrics such as fuel consumption, fuel economy, and fuel level are actively tracked and reported.
- Assess whether controls are in place to prevent fleet fuel theft.

## Safety & Training

Operations Support is responsible for providing equipment operator and safety training to the City's departments. Operator and Safety training is an important component for overall Fleet Management to ensure that the operators are trained to use the equipment correctly and avoid unnecessary breakdown from misuse, prevent workplace injury and manage public safety. The audit will assess whether:

- Processes are in place to identify operator training requirements and ensure operators receive timely training.
- Processes are in place to maintain and manage staff certification and evaluation records.
- Compliance with the regulations concerning operator training, safety inspections, staff certifications and reporting.
- Mechanisms are in place to verify that all individuals operating or driving a City of Saskatoon owned/leased/rented vehicle or powered mobile equipment meet applicable requirements.

## Audit Approach

The following approach will be used in the conduct of the investigation:

- The City Auditor will lead the audit supported by a team of consultants engaged by the Independent Office of the City Auditor and will be responsible for the completion and reporting of the audit.
- The audit team will meet with various Fleet services staff, Fire staff, and other user department staff, including operators and maintenance staff and stakeholders, in the conduct of the audit. It will determine the effectiveness of the services provided by the Fleet Services and Fire in supporting and addressing the City's strategic goals and objectives.
- Conduct a detailed review of documents and records and perform analysis to validate the processes, transactions, and controls. Identify potential opportunities for improvement and provide recommendations
- The City Auditor will meet with Fleet Administration to discuss preliminary findings and recommendations to ensure timely actions are undertaken to mitigate key risks.

## Deliverables

On completion of the audit, a detailed audit report will be submitted to the Standing Policy Committee on Finance at the February 2023 public meeting. The report will provide the results of the audit, including findings and recommendations from the audit. Once the audit report is submitted, the Independent Office of the City Auditor will obtain management responses and action plans to implement the recommendations, which will be presented to the Standing Policy Committee on Finance. A status update and follow-up will be conducted to assess whether Administration effectively implements the recommendations.