

Chapter 9

Department of Transportation Vehicle Management Agency

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Background

9.1 As stated in the Vehicle Management Agency's (the Agency) Business Plan, "Prior to 1984 each department of government was responsible for the provision of their own vehicles and equipment. Funds to operate and replace departmental vehicles were allocated to individual departments.

9.2 "In the early 1980s a study was initiated by government to evaluate the most efficient and cost effective method of meeting the transportation requirements of all government departments. It was determined to be beneficial if one single government department was responsible for the provision of vehicles and associated services.

9.3 "In 1984 the Board of Management established a fleet management operation within the Department of Transportation. This new branch, Vehicle Management, was given the responsibility to purchase, provide repairs and fuel, and to dispose of vehicles ... utilized by government departments." Subsequently, a request was made by Vehicle Management to government, to establish the Vehicle Management Branch as a Special Operating Agency. Government approved a Charter document in this regard in May 1995. The Agency's Charter allows for the rollover and use of any surplus funds generated.

9.4 The Agency now functions as a Special Operating Agency within the Department of Transportation. Its mission is:

To provide fleet management and vehicle maintenance services to Government, on an economical basis and according to established standards, to enable clients to deliver quality services to the public.

9.5 The Agency's mandate currently includes the provision of a full range of vehicle services to twenty client departments. These departments utilize approximately 4,250 vehicles and equipment to provide government services to the public. Fleet composition based on numbers of assets consists of school buses (28%), light trucks (30%), heavy trucks and graders (16%), cars (3%) and other heavy and miscellaneous equipment (23%).

9.6 Services are provided through a centralized fleet management agency office, 30 decentralized repair shops and 101 fuel sites located throughout the Province.

9.7 The Department of Transportation (DOT) repair facilities schedule work to be performed at their own shops and external service providers. Further, they provide repair parts and supplies for client vehicles and collect and input information associated with each repair into the automated Fleet Management System (FMS). FMS captures accumulated mileage, maintenance and repair history, fuel usage, and current assignment by individual vehicle. It also has several reporting capabilities. Some reports are available to client users upon request.

9.8 Some of the larger repair shops offer a full range of services from normal maintenance to a major overhaul, while others are limited to general maintenance. Speciality repairs including glass repair, exhaust work, front-end alignment, automatic transmission repairs, and upholstery repairs are often obtained from the private sector.

9.9 To recover costs incurred in providing these services to government departments, the Agency develops yearly charge back rates for client departments. These charge back rates allocate all vehicle costs to user departments based on usage, repairs and capital costs assigned to that client. The rate structure consists of a fixed monthly rate to recover overhead costs, accident damage, insurance and capital cost, and a variable rate per kilometre to cover repair and maintenance costs. Executive users (Ministers, Deputy Ministers, Executive Assistants) are not charged a variable rate. Rather, they have a fixed rate to cover capital costs and another fixed rate which incorporates all other costs. In addition, both executive and regular clients are charged for the actual cost of fuel consumed each month.

9.10 The Agency retains all revenue received from the disposal of surplus goods and assets, sale of assets to executives and recoveries from insurance claims. When we began our fieldwork, the Agency had an accumulated surplus of \$1.9 million according to the Public Accounts for the year ended 31 March 2001. This surplus had been accumulated since the inception of the Agency in 1996. Subsequent to our field work, the Province released the Public Accounts for the year ended 31 March 2002 which shows the Agency now has an accumulated deficit of \$6.8 million.

Scope

9.11 While the Vehicle Management Agency provides services for buses, heavy equipment and heavy trucks, the scope of our audit was limited to cars, executive vehicles and light trucks. These assets are referred to as Class A (cars, executive vehicles) and B (light trucks) assets within the Agency. Light trucks refer to trucks that are one ton and under. There are approximately 67 cars, 66 executive vehicles and 1,277 light trucks currently being serviced by the Agency. Operating

costs incurred for Class A and B vehicles for the year ended 31 March 2002 amounted to \$6.8 million. Of these operating costs, approximately half related to fuel purchases. The initial capital cost for these vehicles was \$32.4 million.

9.12 Our audit objectives were as follows:

- *To determine if the Vehicle Management Agency is providing repair and maintenance services for government cars, executive vehicles, and light trucks in a manner which minimizes costs and maximizes efficiency.*
- *To determine if the Vehicle Management Agency has adequate systems and practices in place to monitor and control the usage of fuel for government cars and light trucks.*

9.13 We developed a number of criteria to assist us in conducting the audit.

9.14 The initial planning phase of the audit consisted mainly of documentation reviews and interviews with staff from the Department of Transportation, primarily within the Vehicle Management Agency.

9.15 In the conducting phase we obtained audit evidence by performing audit testing at the Department of Transportation's Vehicle Management Agency, both at head office and two major repair and maintenance facilities. While there are thirty repair facilities in the Province, only four of them service a substantial number of cars, light trucks and executive vehicles. We also interviewed staff at three major user departments and various executive drivers. Our audit was substantially completed by May 2002.

9.16 We have used all information gathered to support our findings, conclusions and recommendations that are presented in this chapter.

Results in brief

9.17 At the time of our audit the Agency was not in compliance with a key aspect of the government's Vehicle Policy. This policy required that the Agency "report annually to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation." We see this reporting as an extremely important undertaking required by the policy makers of the day. It gets to the fundamental issue as to whether or not the service is being delivered in the most economical way. We were disappointed to note that the Vehicle Policy was amended subsequent to our audit, and the reporting requirement was removed.

9.18 The Agency does have a preventative maintenance program in place. We observed, though, that the Agency is not always proactive in scheduling such maintenance. This means that

preventative maintenance is not always being done in a timely fashion.

9.19 The Agency needs to establish benchmarks for mechanic utilization, mechanic efficiency and mechanic effectiveness, three areas that the National Association of Fleet Administrators calls “three fundamental dimensions of labour cost.”

9.20 The Agency has undertaken some initiatives to determine the appropriate staffing levels to provide service for government-owned cars and light trucks. For instance, the Agency has completed a number of staffing studies. But, although the Agency’s business plans stated its intention to carry out staffing studies for head office and casual staff, the Agency has not completed them.

9.21 The Agency is not currently analyzing the economics of in-house service provision versus using external vendors for the same service. When external vendors are used for service provision, staff are not always ensuring they obtain the vendor that would necessarily provide the best overall service to government.

9.22 The Agency is not replacing the fleet in accordance with its own life cycle costing analysis. The main explanation offered for this was budget restraints. Decisions based on this reason may be resulting in a false economy.

9.23 The Agency generally has sufficient policy to monitor and control the usage of fuel. But it appears that this policy information is often not making it to the drivers. Further, at the time of our audit, the Agency was not in compliance with the requirements of government policy for monitoring fuel and credit card usage.

9.24 We noted a couple of areas where the Agency could benefit from enhanced direction in dealing with executive vehicles. One relates to the extent of work that the Agency can perform just prior to an executive purchasing a government vehicle. In other words, the Agency needs some firm guidelines on what would be fair and reasonable for both the executive driver and the government. The second area concerns monitoring of fuel usage for executive vehicles. This is an area we commented on to some degree in our 1996 Report but it seems it still requires some attention.

Repair and maintenance services

9.25 Our first objective was:

To determine if the Vehicle Management Agency is providing repair and maintenance services for government cars, executive vehicles, and light trucks in a manner which minimizes costs and maximizes efficiency.

Overall planning

9.26 Our first criterion was:

The Vehicle Management Agency should have systems and practices in place to appropriately plan for the servicing requirements of government cars, executive vehicles and light trucks.

Assigning vehicles

9.27 When a new vehicle is purchased, it is assigned to a particular repair shop by the Agency and this is the primary repair location for that vehicle. During our audit we were pleased to note that all shop supervisors we interviewed could easily provide us with a listing of vehicles they were responsible for. As well, head office could easily produce reports for us from FMS detailing all shops in the Province and their corresponding vehicle assignments.

Types of service

9.28 While it is important for shops to know the number of vehicles they are responsible for, we were also looking for evidence that staff knew the types of service to provide. We determined that Agency staff are well aware of the overall responsibility to provide services for government vehicles. There are clearly established services to be provided. Examples of these are motor vehicle inspections and preventative maintenance programs.

Staffing levels

9.29 Providing the desired level of client service for servicing government vehicles would necessitate assigning an adequate number of appropriately qualified staff to do the job.

9.30 In the shops we visited, all mechanical staff had either an Automotive Service Technician license or a Truck and Trailer Technician license, depending on what types of vehicles they worked on.

9.31 Beginning in 1989, Vehicle Management started to look at staffing levels required to complete the various work activities in each of the shops. In 1990 it made its first attempt at establishing a mathematical model to predict the optimum staffing requirement for each shop. Further refinements were made to the 1990 assumptions and staffing studies were again completed in 1993, 1996 and 2000.

9.32 Most recently, staffing studies have been based on one of two methods. First, the Vehicle Equivalent method where one vehicle equivalent equals the amount of maintenance effort required to properly maintain one average fleet sedan for one year. Second, the Asset to Mechanic ratio is the number of assets that can be serviced by one mechanic. There appears to be little or no difference in outcome using either of these methods.

9.33 To determine staffing levels, the Agency is assuming that mechanics are paid for 2,080 hours a year. Further, they are using 75% as the percentage of chargeable time or time charged against a work order. In actuality, mechanical staff only achieve approximately 67%

chargeable time. Using 75% as a factor for determining the required complement of work provides for an increase in efficiency and effectiveness.

9.34 While staffing studies have been completed for mechanical and other shop staff, there have been none for head office staff, despite the fact that the 2000 Staffing Study noted that this was going to be done.

Recommendation

9.35 We recommended the Agency complete a staffing study of head office to ensure adequate services are being provided in the most economical fashion.

Departmental response

9.36 VMA [Vehicle Management Agency] has taken an alternate approach to evaluating staff required to meet the changing needs of the Agency. These needs are assessed on an ongoing basis by the senior managers of VMA in conjunction with initiatives that are being approved in the Business Plan submitted to government on an annual basis.

Overtime

9.37 We examined an overtime report for all shops. We noted instances where overtime was as high as 3,694 hours in one shop (servicing all vehicle types) in a given year. This reflects overtime accumulated by 25 employees in one of the major repair shops in the Province. Because overtime is paid or taken as time off at time and a half, the "true" overtime cost is 5,541 hours. With the above stated assumption that a mechanic is paid for working 2,080 hours a year, this equates to 2.7 positions. We were not able to obtain documentation regarding the economic advantage or necessity of paying overtime versus adding to the current staff complement.

Recommendation

9.38 We recommended the Agency analyze the economics of using overtime as a means of supplementing staff requirements.

Departmental response

9.39 VMA does not staff for peak workloads and thus overtime can be expected in most shops. It is the responsibility of shop managers to assess the requirements for overtime and initiate accordingly. VMA agrees that further study on the use of overtime within its operations may be required.

Casual staff

9.40 For the year 2001-2002, casual labour accounted for approximately 7% of the Agency's total internal labour costs. The Agency's 1999 Business Plan states:

The Agency will study the use of casual staffing during 1999-2000. This study will identify the number of days of casual staff currently being utilized, study the impact of using alternate service delivery and make recommendations for the future use of casual help in the shops.

	<p>9.41 During our audit, we determined that this casual staffing study was not done. No explanation was provided as to when, or if, it would be done.</p>
<i>Recommendation</i>	<p>9.42 We recommended the Agency complete the casual staffing study as described in the 1999 Business Plan. Part of this study should analyze the cost effectiveness of using casual staff.</p>
<i>Departmental response</i>	<p>9.43 VMA will be taking steps to complete this study.</p>
<i>Supervisory roles</i>	<p>9.44 There are six districts in the Province. Each one of these districts is assigned a shop superintendent who is responsible for the overall operations of all shops within that district. We determined that there are vast differences in the number of shops that a supervisor might be responsible for. One district, for instance, has only one shop while another has eight. We questioned Agency management on why this was the case and were told that these supervisory positions were assigned based on past practice. They informed us they have looked at the appropriateness of this assignment of supervisory positions before. One shop superintendent we interviewed felt there was a big discrepancy in responsibilities between districts. We were unable to obtain any documentation that would support the current assignment of this supervisory role.</p>
<i>Recommendation</i>	<p>9.45 We recommended the Agency continue to review the assignment of shop superintendent staff to ensure the most equitable and economical assignment of superintendent positions.</p>
<i>Departmental response</i>	<p>9.46 There are six districts in the province. Each district falls under the management of a District Engineer whose responsibility includes the day-to-day operation of the shops. Accordingly there are 6 shop superintendents.</p>
<i>Aging work force</i>	<p>9.47 The Agency has a real concern regarding an aging work force. In fact 50% of the mechanical work force could reach retirement within the next five years. While we were pleased to note that there has been some informal work done to address this concern, we would like to see the Agency develop a succession plan, including strategies, goals and time frame for completion.</p>
<i>Recommendation</i>	<p>9.48 We recommended the Agency formalize a succession plan to address the problems associated with its aging work force. This plan should include strategies, goals and time frame for completion.</p>
<i>Departmental response</i>	<p>9.49 VMA will continue to address issues regarding succession planning and will seek out new strategies to recruit and retain qualified staff.</p>

Conclusion

9.50 This criterion was met. The Agency has undertaken initiatives to determine the appropriate staffing levels to provide service for government owned cars and light trucks. However, staffing studies for head office and casual staff were planned but not completed.

Make or buy analysis

9.51 Our second criterion was:

Vehicle Management should have sound decision-making practices regarding the “make or buy” analysis regarding the provision of repair and maintenance work for government cars, executive vehicles and light trucks.

9.52 In order to conclude on this criterion, we looked at the following key areas:

- does the Agency have an accurate costing system? Are the true costs of repairing and maintaining a vehicle known and accessible?
- does the Agency regularly compare costs of doing work in house versus externally and do staff make decisions as a result of such comparisons?
- are appropriate processes in place to approve outsourcing?
- are adequate systems in place to ensure the best vendor (best service provider with lowest cost to government) is the preferred outside service provider?
- is there adequate monitoring of the “make or buy” decision? Once the decision has been made does the Agency analyze the economics of such decisions?
- is there adequate reporting on results from “make or buy” decisions? Is the Agency reporting to client departments what the levels of outsourcing are, and the economics of such decisions? Do users know the true costs of the services provided by the Agency?

Accurate Costing

9.53 In order to facilitate the “make or buy” decision, there would have to be an accurate accumulation of costs incurred to repair and maintain any given asset.

9.54 A computerized information system (FMS) is used to facilitate the management of government vehicles. Repair and maintenance costs per asset are recorded in FMS. Thus, for any given asset you can easily query both the internal and external repair costs for any given year. In turn, the Agency uses these accumulated costs to bill client departments. We noted during our audit that accumulated costing information in FMS is sometimes inaccurate, incomplete and unreliable. In some cases, amounts are getting entered into FMS twice, or charged against the wrong asset, or not charged at all.

9.55 We attempted to determine what system controls were in place that would ensure accurate costing. Because both internal labour costs and external vendor costs are recorded in FMS and the government's Oracle Financial Information System (OFIS), we attempted to reconcile the two systems. We were unable to do so. For the last nine months in 2001, internal labour costs (for all types of vehicles) were \$189,343 higher in FMS than OFIS. For the same time period, external repair costs (for all types of vehicles) were \$327,745 higher in FMS than in OFIS. While Agency staff were able to reconcile differences in labour costs for us, they were unable to reconcile the differences in external repair costs. Reconciliations of costs accumulated in FMS and OFIS are not done by Agency staff on a regular basis. In our opinion, this would be a necessary task to ensure costs have been accurately recorded.

Recommendation

9.56 We recommended the Agency reconcile repair costs recorded in FMS to OFIS on a regular basis. Any material discrepancies should be investigated.

Departmental response

9.57 VMA will review the procedures for inputting data into the two systems and reconcile FMS to OFIS on a regular basis.

9.58 We carried out some testing of the recording of repair costs. In doing so, we noted several cases where assets were erroneously charged more than once for the same repair. We determined that while the actual invoice was not paid more than once, in some cases the asset, and hence the client department, was billed the same charge repeatedly. Agency management informed us that in most cases these duplicate charges were later corrected; however, we did note some that were not.

9.59 The prevention of duplication is important both from the point of developing accurate rate structures and also to determine what it cost to repair and maintain any given vehicle. A management information system should generate good data. The FMS system should have the capability of disallowing double entries, but this is not the case. Further, Agency staff do not regularly query double entries in FMS to ensure that costs are not being accumulated against an asset more than once for the same invoice.

9.60 When repair work needs to be done on a vehicle that is still covered under the warranty period, VMA staff try to send the vehicle back to the original dealer to do the work. However, in some cases, warranty work is performed at government repair shops. When warranty work is completed by in-house staff, charges for this work are recorded in FMS and charged against the asset in question. VMA then invoices the original dealer for reimbursement of costs incurred. During our audit we noted instances where warranty credits (dollars reimbursed for items covered under warranty) were not credited against an asset or were credited to the wrong asset. We also noted instances where warranty credits were indeed credited to an asset, but there was no initial charge

noted to offset the credit. We could only assume either the initial charge had not been recorded or the warranty credit was credited against the wrong asset.

9.61 We further noted instances where assets were charged erroneously for work that was never performed on that asset. While auditing FMS, we noted that a mini van in a department was charged \$28,000 for a plow harness and fenders. The mini van obviously had never received any such parts. The Agency informed us they posted these amounts to the mini van during a testing phase of their FMS system, with the intention of reversing them at a later date. The charges were never reversed, nor were they detected by the Agency. There are currently no systems in place to detect large and unusual charges such as this made against an asset. At the time of our audit, operating cost reports were not being generated and reviewed on a regular basis. If such reports were reviewed regularly, large amounts charged in error would likely come to the attention of Agency staff.

9.62 In addition to auditing accumulated costs recorded in FMS, we examined hard copy invoices that were kept in asset files at one repair shop facility. In doing so, we noted that in several cases HST had been charged to an asset when costs were recorded in FMS. Because government does not pay HST, this would be an overstatement of vehicle repair costs and would be reflected in charge-back rates to client departments.

Recommendations

9.63 We recommended the Agency review the cost/benefit of having an accurate costing system that reflects the true cost of repairing and maintaining a vehicle. This would include ensuring the following:

- assets are only charged once for repair costs;
- warranty charges are debited and warranty credits are credited to the proper asset; and
- HST is not charged to an asset.

9.64 We recommended the Agency have systems in place to detect large and unusual charges made against an asset.

Departmental response

9.65 *VMA contends that FMS is an accurate information system which generally reflects the true cost of repairing and maintaining vehicles. While it is unreasonable to believe that such a large information system, which relies on the manual input of data, will never have error, VMA will continue to work to ensure that opportunities for error are minimized.*

Cost comparison of internal versus external work

9.66 Government has mandated the Agency to provide services for government vehicles. However, the Agency has interpreted this responsibility to mean it has the choice to provide the services in house

or externally and re-bill client departments accordingly. Under the current system, the Agency schedules and co-ordinates all repairs and maintenance, whether they are done internally or externally.

9.67 Because the Agency has the choice of whether to provide the service or send the work to an external vendor, we would expect that there would be systems in place to ensure adequate costing of both alternatives. Further, we would expect that the best alternative (best service with lowest cost to government) would be selected.

9.68 Our auditing revealed that in some cases Agency staff are making the decision to do repair and maintenance work internally or externally based on past practice, timing for client, and in some cases availability and expertise of in-house staff. In many cases the decision to have the work done externally was due to scheduling problems, where a client needed a vehicle repaired and it couldn't be fitted into the repair shop schedule. Our interviews with Agency staff revealed that they are not comparing costs of providing services internally to those provided by external vendors. We were unable to determine if these decisions to send the work to external vendors were necessarily the most economical to government.

Recommendations

9.69 We recommended the Agency conduct a review to compare pricing of comparable repair and maintenance services offered by the private sector.

9.70 We recommended that the results of the comparable pricing review be used to determine the most economical means of providing repair and maintenance services to government-owned vehicles.

Departmental response

9.71 *VMA will review opportunities where comparable pricing can be reasonably implemented as a means of guiding shop activities. In stating this, VMA remains cognizant of the fact that there are many variables including quality, expertise and time that influence the overall repair decision.*

Approval Process

9.72 Given the options to provide repair and maintenance services internally or externally, we would anticipate that there would be some sort of an approval system in place. Agency staff informed us that the decision to perform the work internally or externally is made by the shop supervisor. We found this to be the case in the two major repair shops we visited.

9.73 As per the Agency's driver handbook, all requests for service are to go through the Agency regardless of where the servicing is going to be done (internally or externally). However, shop staff in two major shops in the Province informed us that executive users sometimes have a preference for external vendor work. In some cases this is due to the fact that many executives drive more specialty vehicles and like to take them

to the original dealer. In some cases they do not bring their vehicles into the government repair facilities for repairs and maintenance work and permission is sometimes not obtained from supervisors until after the servicing has been done by an external vendor. In our own analysis of expenditures, we determined that average external vendor expenditures for executive vehicles were 17% higher than for regular client departmental users. However, average external vendor expenditures for one particular group of executive drivers were 64% higher than other client departmental users. Agency management informed us that this could be due in part to the fact that executive drivers often drive more specialized vehicles that may require different servicing. While we do not dispute this fact, we did note many instances where routine repair and maintenance work such as oil changes were being done by external vendors.

Recommendation

9.74 We recommended the Agency ensure that executive users are aware of the policy regarding service provision.

Departmental response

9.75 VMA agrees with the recommendation and will ensure that the executive users are aware of the policy regarding service provision.

Determining the best service provider

9.76 Given the frequency of outsourcing repair and maintenance work on cars, executive vehicles and light trucks, we expected the Agency to have systems and practices in place that would ensure the best vendor would be used for the provision of such services. However, when we examined processes in place at the Agency to determine who was going to provide services externally, we determined that this was not always the case.

9.77 While there are standing agreements with various vendors that support the major shop in Fredericton, there are no standing agreements for other larger centres such as Moncton or Saint John. These agreements are bid on an annual basis (or longer in some cases). For instance there are standing agreements with external vendors to purchase new parts, provide preventative maintenance, for windshield/glass repairs, tires, wheel balancing and in some areas of the Province, exhaust repairs. There are usually several vendor contracts available to provide the above services. Costs specified in the contracts for services are usually specific (i.e. an established hourly discounted shop rate for labour and a discount structure for parts). While the discounts vary, because the vendors are on the standing offer list, Agency staff may choose from any number of these vendors. During our audit, we did not note any instances where services that were tendered were being awarded to vendors not on the contract of supply list.

9.78 What we did note, however, is that the vendors who were on the supply list for one type of service provision were more likely to be awarded other types of work as well. For instance, one vendor was awarded the contract of supply for preventative maintenance for light

vehicles. For the year 2001, this vendor performed approximately \$6,000 worth of preventative maintenance work, and a further \$10,000 in bodywork and \$10,000 in transmission work on light vehicles. The total payments to this particular vendor in the year were \$80,000. We were unable to obtain any documentation that would satisfy us that this particular vendor was providing the most economical body work and transmission services to government.

9.79 We found no evidence that quotes were being obtained for services for which there were no standing agreements. The staff we interviewed informed us they generally only obtain quotes for accident related work and body work. Both head office management and shop staff informed us of their clear mandate to “try to spread the work around.” In our opinion, while this may be advantageous to vendors, it may not necessarily be so to government.

Recommendation

9.80 When there are no applicable standing agreements, we recommended the Agency ensure that more than one quote is obtained for servicing required. Further, we recommended the best vendor (best service with lowest cost to government) be selected.

Departmental response

9.81 VMA will direct staff to seek out multiple quotes in cases where reasonable estimates (eg: body work) can be obtained. However, due to the nature of mechanical repair, VMA remains cognizant of the fact that it is not always practical or cost effective to seek out more than one quote (ie: it is often impossible to obtain a fixed quote since the nature of the problem cannot be determined with a cursory look) and therefore will continue to allow reasonable judgement in this regard.

Recommendation

9.82 We recommended the Agency consider using standing agreements for major areas such as Moncton and Saint John where external servicing is required.

Departmental response

9.83 VMA will implement standing offers in other areas of the province.

Monitoring “make or buy”

9.84 In order to ensure service provision at the lowest cost to government, we would expect the Agency to monitor the appropriateness of dollars spent on in-house service provision versus external service provision. In fact, the Board of Management, when creating the Agency, requested that the Agency report annually the cost per kilometre of operating the government fleet, and comparative costs of alternative means of providing transportation. We see this as an extremely important undertaking required by the policy makers of the day. It gets to the fundamental issue as to whether or not the service is being delivered in the most economical way.

9.85 We determined that the Agency is not complying with this aspect of policy. If it were doing so, it would not only provide guidance as to

what services are more economical to do internally or externally, but would also indicate to all departments whether the Agency is the most economical service provider.

9.86 On this note, it is stated in the Agency's Charter, that as of April 2000 and subject to Board of Management approval, government departments have the option to use the Agency for their services or contract with the private sector directly providing there is an economic advantage to government. Given this, we would expect that the Agency would be well served to provide client departments with some clear analysis on the economics of using it as a service provider.

Recommendation

9.87 We recommended the Agency monitor the appropriateness of dollars spent on in-house service provision versus external service provision.

Departmental response

9.88 *VMA will continue to monitor the cost of internal repairs versus external repairs from an overall budget perspective. However, as previously noted, VMA will seek opportunities where further economy can be achieved in establishing which shop (internal or external) conducts the repair service.*

Reporting

9.89 As stated previously, the Agency has the ultimate say in whether to provide services in house or by an external vendor. Given the fact that the Agency in turn bills clients for service provision, we would expect it to report on the economics of such decisions. Furthermore we noted that they have a responsibility to do so in accordance with the government's Vehicle Policy, which requires the Agency to:

Report annually to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation.

9.90 Agency management informed us while they report costs of operating their fleet yearly in their Business Plan, they do not report costs per kilometre and comparative costs of alternate means of providing transportation to the Board of Management as required by the Vehicle Policy.

9.91 Paragraph 13(2) of the *Auditor General Act* states that the Auditor General shall bring

to the attention of the Legislative Assembly any cases in which he has observed that...

(g) procedures have not been established to measure and report on the effectiveness of programs, where, in the opinion of the Auditor General, the procedures could appropriately and reasonably be used.

9.92 In our opinion, the Agency versus alternate means comparison is an example of a procedure that could appropriately and reasonably be used to measure and report on the effectiveness of programs. The Province's annual report policy states the major objective of an annual report is "to be the major accountability document by departments and agencies for the Legislative Assembly and the general public". Certainly one key way to be accountable, in our opinion, is to compare costs of providing the service yourself to the costs of providing the same service through an external organization.

Recommendation

9.93 We recommended the Agency comply with policy by reporting to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation. Further, this type of reporting would seem to be an excellent measure of effectiveness to include in the Agency's annual report.

Departmental response

9.94 Board of Management approved a revised Vehicle Policy, which does not require the above referenced reporting. Notwithstanding this, VMA does compare costs to private sector provision. Consideration will be given to expanding this analysis and reporting it in the VMA Annual Report.

Conclusion

9.95 This criterion was not met. The Agency is not currently analyzing the economics of in house service provision versus using external vendors. When external vendors are used for service provision, staff are not always ensuring they obtain the vendor that would necessarily provide the best overall service to government. There is a lack of reporting regarding the economics of the Agency as a service provider versus external vendors. The Agency is not reporting annually to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation.

Cost and performance standards

9.96 Our third criterion was:

Cost and performance standards for maintenance and repair should be established and used to monitor performance.

9.97 In regards to this criterion, we wanted to determine what, if any, cost and performance standards were being used by the Agency to guide and monitor its own performance. Cost and performance standards provide points of reference in measuring or judging quality and efficiency of operations. Standards, especially when they are based on external benchmarks, provide a way of helping the Agency, its shops, and its mechanics objectively define and determine whether they are doing a good job.

9.98 In conducting its maintenance and repair activities, the Agency needs standards to control labour costs since this is such a large portion

of expenditures. In this regard, we noted the following comment in *Benchmarking for Quality in Public Service Fleets*, a publication of the National Association of Fleet Administrators (NAFA). (It should be noted that the Agency has taken the progressive step of joining NAFA. Senior staff regularly receive NAFA publications and attend NAFA meetings to keep current on various trends in the fleet sector):

In-house labour typically represents a very large portion of the [maintenance and repair] costs of a fleet, and in conducting a benchmarking analysis it is important to remember three fundamental dimensions of labour cost:

- (1) *the percentage of time maintaining vehicles and equipment as opposed to other less productive activities (i.e. mechanic utilization);*
- (2) *the amount of time it takes your mechanics to maintain and repair vehicles (i.e. mechanic efficiency); and*
- (3) *the quality of work performed (i.e. mechanic effectiveness).*

9.99 We examine below what standards the Agency has implemented to date with respect to those three areas of mechanic utilization, mechanic efficiency, and mechanic effectiveness.

Mechanic utilization

9.100 Mechanic utilization is a measurement that has been adopted by the Agency in recent years. Management is comparing the number of hours mechanics charge to specific assets to non-productive time. On a Province-wide basis, Agency shop staff are currently reporting about 67% chargeable time. Some shops report higher chargeable times and some lower. However, the Agency's own senior management admits that this information is only as accurate as it is reported - meaning staff record their own time spent on jobs and this 67% may or may not be reality.

9.101 We also noted that while chargeable time data is accumulated, there are no clearly directed objectives in place regarding what chargeable time should be. NAFA has accumulated data on utilization rates from various organizations that could be utilized by the Agency. The Agency could use this to provide some perspective on whether it can be satisfied with the level of performance it has achieved.

Recommendation

9.102 We recommended the Agency develop clearly defined goals regarding mechanic utilization that are based on relevant industry standards. These goals should be clearly communicated to staff and progress towards achievement should be monitored.

Departmental response

9.103 *VMA has used information in determining staffing ratios that is consistent with recommendations from external sources. In addition, supervisory staff monitors mechanical staff work activities to ensure that the work is being completed in a timely manner.*

Mechanic efficiency

9.104 Currently, the Agency has no standards in place for mechanic efficiency. Agency management informed us that mechanic productivity is monitored informally through time sheets and observation. We determined that while industry standards for various repair activities do exist, the Agency is not using them to guide or monitor the time taken to complete repair tasks. *Chilton's*, for example, is a well-known publication detailing numerous repair tasks and the time it should take to complete them. Shop staff we interviewed were not using *Chilton's* or any other industry standards to assist them in knowing how long a job should take.

9.105 We noted the Agency recently accumulated data in FMS regarding time charged to repair tasks within their own shops. The FMS Repair Statistics Report shows the time it has taken Agency staff to do a certain job in the past. It details the shortest time and the longest time. Shop staff can access this data freely to see time taken in the past to do given repair tasks.

9.106 Management informed us that this data would act as an internal guide as to the time it should take to do a certain job. However, historical performance of your own organization, while important for analyzing trends, does not provide the best benchmarks. When historical averages are used to develop standards, any previous inefficiencies are carried forward.

9.107 We discussed this matter at some length with senior management. There appeared to be openness towards adopting new standards and measurement techniques. For instance, it was offered that the FMS might be modified in some way to show the mechanics what the expected times were. When a work order is opened, FMS might be modified to show Agency staff the standard Agency time and external benchmark time (e.g. *Chilton's*) for a particular type of repair job.

Recommendation

9.108 We recommended the Agency develop standards for measuring mechanic efficiency. We further recommended that these standards be monitored and used as a component of performance evaluation.

Departmental response

9.109 *VMA will be reviewing its current practices for measuring mechanic efficiency.*

Mechanic effectiveness

9.110 Agency management informed us that they monitor mechanic effectiveness by informal observation. Naturally, as supervisors carry out their duties on the shop floor a certain amount of this measurement of mechanic effectiveness takes place just through observation. It was also felt that when any vehicles were returned for repair shortly after having been in the shops, the FMS would clearly show who worked on the vehicle previously. Thus, trends in the work of individual mechanics could be observed.

9.111 We wondered though, if there could be a benefit associated in more formal measurement. The quality of the work could be reflected in the number of breakdowns, the average number of kilometres between breakdowns, or perhaps in unusually high repair and maintenance costs. NAFA suggests that the distance between breakdowns is a useful measure in this regard.

Recommendation

9.112 We recommended the Agency develop standards and measures for mechanic effectiveness. Further, the Agency should consider the benefits and costs of extending these standards and measures to its performance evaluation process for mechanics.

Departmental response

9.113 *VMA has numerous systems in place to monitor mechanic effectiveness including detailed repair history, asset log books, client survey reports, etc. These measures will be reviewed with consideration given to the above recommendation.*

Conclusion

9.114 This criterion was not met. The Agency has not established cost and performance standards for maintenance and repair.

Additional comments on cost and performance standards

9.115 During our work on cost and performance standards, we became aware that the Agency was working on a related initiative known as the balanced scorecard. The balanced scorecard was the response to the Agency's 2001-2005 Business Plan initiative to develop performance measures for all aspects of the Agency's business.

9.116 We were pleased to note that the Agency finalized a draft version of a Balanced Scorecard Performance Measurement and Management System (Balanced Scorecard) towards the end of our audit. The Balanced Scorecard was delivered to all districts in May 2002.

9.117 As part of our audit, we reviewed the Balanced Scorecard in some detail.

9.118 One general comment we can make by looking at the performance measures in the Balanced Scorecard is that they are limited to comparing performance of individual shops to the Agency average. Certainly this does offer a valuable perspective. It is important to have good historical data on your own performance. And it is a worthwhile exercise to see how components of the organization have compared to the organization as a whole. But there are some limitations to using only internal comparisons. By comparing the Agency's performance to established fleet benchmarks, the Agency would be in a better position to assess performance and to determine where corrective action may be necessary. It would have more objective evidence of whether it was doing a good job.

Recommendation

9.119 We recommended that the Agency revisit the Balanced Scorecard to ensure it includes established industry benchmarks for its performance indicators.

Departmental response

9.120 VMA agrees to review information on industry standards and will consider the feasibility of using this information in various aspects of measuring performance.

9.121 One of the objectives set by the Agency in developing the Balanced Scorecard is to maximize shop efficiency. The measures for this objective are to compare the ratio of internal repairs to external repairs in both dollars and numbers per year. In our opinion, this says little about shop efficiency and it would be difficult to conclude on performance simply by knowing the internal versus external repair dollars spent per shop. NAFA suggests a better measure might be the miles or kilometres per direct hour of mechanic maintenance and repairs labour. The Agency could also compare average times spent on various repair activities to recognized industry standards such as *Chilton's*.

Recommendation

9.122 We recommended that the Agency enhance its Balanced Scorecard by developing new measures for maximizing shop efficiency. It is important that these measures include benchmarks adopted from recognized standards.

Departmental response

9.123 VMA will be reviewing its current measures of effectiveness and efficiency. When industry measures can be identified they will be assessed for acceptability for use in the Balanced Scorecard.

9.124 Two other objectives developed by the Agency were to “increase fleet reliability” and to “increase customer convenience”. For the “increase fleet reliability” objective, one indicator is the ratio of the numbers of scheduled internal work orders to the number of unscheduled internal work orders. The Agency also reports on preventative maintenance hours as a percentage of total repair hours. We noted, however, there is no reporting on such other reliability measures as the number of breakdowns, number of breakdowns per hour of servicing and down time. We were pleased to see that Agency staff have discussed implementing a couple of these measures in the future.

9.125 For the “increase customer convenience” objective the performance measure was average kilometres per work order. We would like to suggest that the Agency consider such other measures as customer wait time, turn around time, actual time taken to service a vehicle against promised time, or customer satisfaction levels. The Agency informed us that it has done customer service surveys in the past and staff certainly appear open to doing additional surveys in the future.

Recommendation

9.126 We recommended that the Agency revisit its measures for the customer perspective of the Balanced Scorecard. This should include

enhancements to the measures for the fleet reliability and customer convenience objectives.**Departmental response**

9.127 *VMA will be reviewing its current measures to predict fleet reliability and customer convenience. When industry measures can be identified they will be assessed for acceptability for use in the Balanced Scorecard. It must be recognized that the cost, time and availability of data is an important factor in selecting measures.*

Preventative maintenance

9.128 Our fourth criterion was:

The Vehicle Management Agency should ensure that adequate preventative maintenance is provided to government cars, executive cars, and light trucks, to avoid increased repair costs in the future.

9.129 Intuitively, well-maintained vehicles should last longer and cost less to operate. Delays in recommended preventative maintenance work may result in increased repair and maintenance costs in the future. A preventative maintenance program is also important in ensuring that the manufacturer's warranty is not invalidated.

9.130 There are essentially four components to the Agency's program for maintenance of vehicles. Firstly, there is a preventative maintenance program developed in accordance with manufacturer specifications. Secondly, statute requires a Motor Vehicle Inspection on a yearly basis. Thirdly, drivers of vehicles are assigned a logbook, in which they can detail any maintenance issues that need to be brought to the attention of their repair shop. Fourthly, the Agency co-ordinates the scheduling of all vehicle recall work to be performed. We examine each of these components in the sections that follow.

Following manufacturers' specifications

9.131 The Agency has developed a preventative maintenance program in accordance with manufacturers' specifications. Preventative maintenance servicing for Class A and B vehicles is referred to as PMA servicing and is due every three months or 5,000 kilometres, whichever comes first. Reports are available in FMS that denote all PMA work that is due on a particular vehicle for any given month.

9.132 Although this program is in place, shop staff we interviewed informed us they are not proactive in scheduling vehicles for preventative maintenance. They either wait for the driver to contact them for an appointment, or do the work when the vehicle is brought in for another problem. Our own auditing of FMS revealed that 30% of in service class A and B assets had no record of having a PMA in over three months.

9.133 Further, even if the "PMA due reports" were being used on a consistent basis, they appear to have some limitations that would mean certain vehicles would still not be receiving the PMA servicing at the

proper time. This is because the “PMA due” criterion is based on time only. This can pose problems for vehicles in departments like Public Safety where they may put on thousands of kilometres a month. These vehicles could be due for servicing monthly, but they would only show up on the PMA due report every three months. We suggested that the Agency reinforce to the drivers the importance of bringing vehicles in for PMA servicing that have reached the 5,000 kilometre point before three months.

9.134 Preventative maintenance is important. If the program is followed, it not only helps to prolong the life of the vehicles, but it also contributes to an overall safe driving condition. And it is often a necessary part of complying with the manufacturer’s warranty conditions. The Agency needs to be more proactive with its preventative maintenance program; otherwise it is not showing due regard to economy.

9.135 While the Agency relies heavily on drivers to schedule their own appointments, PMA due reports are not circulated to user departments. We feel this would serve as a useful reminder for drivers.

Recommendation

9.136 We recommended the Agency ensure that all in-service assets have preventative maintenance servicing on a timely basis, by making drivers and vehicle co-ordinators more aware of required servicing.

Departmental response

9.137 VMA agrees with this recommendation. VMA, in conjunction with district staff, will discuss this issue and determine what is the most appropriate method of ensuring that the clients are made aware of the required [preventative maintenance] programs.

Motor Vehicle Inspection (MVI)

9.138 We were pleased to note that all shop staff we interviewed did have a systematic approach to scheduling vehicles for an MVI. One shop supervisor kept a large calendar type list showing what vehicles were due in what month. The drivers would be contacted well in advance to bring their vehicles in for an MVI. When the inspection was done, the vehicle would be crossed off the list. Also, there is an MVI due report that is available in FMS. This report lists all vehicles that are due or overdue for MVIs. This is a useful tool for both scheduling MVIs and following up on those that were overdue. Staff we interviewed informed us they were indeed utilizing these reports on a regular basis.

Proper use of logbook

9.139 All drivers of government vehicles are expected to utilize an assigned logbook. The logbook consists of a “daily record of vehicle usage”, and a “driver’s vehicle condition report”. The “daily record of vehicle usage”, which details mileage and fuel obtained, is to be submitted monthly to the departmental vehicle co-ordinator for recording of fuel usage.

9.140 The “driver’s vehicle condition report” details possible repair items that the driver feels require attention. These reports are to be submitted on a weekly basis by drivers to local repair shops, regardless of whether there are issues with the vehicle or not. While this sounds fine in theory, shop staff inform us that in reality, they receive less than half of these reports.

Recommendation

9.141 We recommended the Agency ensure all drivers submit "driver’s vehicle condition reports" as required.

Departmental response

9.142 VMA will bring this issue to the attention of the client departments and monitor for improvement in results.

Responding to recalls

9.143 Periodically the Agency receives recalls from various manufacturers. Agency staff enter the recall information and the vehicles to which the recalls apply into FMS. The Agency also sends a hard copy of each recall to the shop superintendents, who are ultimately responsible to ensure that repair facilities are aware of the recall. Agency staff then schedule appointments with the appropriate dealer to perform the recall work.

9.144 Despite various checks and balances in place to ensure recalls are done in a timely fashion, our own auditing revealed that 36% of recalls received were not complete as of March 2002. Further, an aging analysis showed that 30% were outstanding for over 150 days and 65% for over 180 days.

9.145 Additionally, we determined that Agency staff are not prioritizing recall appointments based on the level of risk. Our analysis revealed that many of these recalls were due to vehicles failing to conform to Canada Motor Vehicle Safety Standards. We noted one safety recall dated May 2001 regarding a potential fuel leak and risk of fire. The manufacturer’s notice stated to “call your dealer without delay”. As of March 2002, this recall work on a particular vehicle had not been done.

Recommendation

9.146 We recommended the Agency formalize policy to ensure that all manufacturer recalls are completed on a priority basis. We further recommended that serious safety related items be given high priority.

Departmental response

9.147 VMA has put in place a system to prioritize and follow up on manufacturer recalls based upon the risk associated with the recall. Shop staff will be notified that they must address all critical recalls and update all data in a timely manner.

9.148 The AG’s report indicated that 36% of recalls received were not complete as of March 2002. It should be noted that upon further follow up of this issue by VMA staff, it was found that the actual number of

recalls not completed were minimal. Shop staff addressed the majority of recalls however it was noted that FMS records were not updated in a timely manner to reflect this work. As noted above, VMA has implemented a new vehicle recall system which should address this reporting issue.

Conclusion

9.149 This criterion was partially met. While the Agency has a preventative maintenance program in place, it is not always pro-active in scheduling such maintenance. The result is that preventative maintenance is not always being done in a timely fashion. Recall work is also an issue. The Agency needs a priority setting mechanism to ensure high priority recalls are receiving prompt attention.

Repair versus disposal decisions

9.150 Our fifth criterion was:

Decisions covering repair/disposal alternatives should be based on adequate analysis.

9.151 Timely replacement of vehicles is one of the key decisions in fleet management. Hanging on to a vehicle too long can lead to increased repair costs, increased down time for vehicles, and safety concerns for drivers. On the other side though, if vehicles are replaced too soon, this may not be economical.

Replacement based on life cycle costing

9.152 Currently, the Agency determines the level of vehicle replacement for departments. The Agency sets a purchase allotment each year for each client department in its Business Plan. Because individual departments do not get a capital budget from government for vehicles, the Agency incurs the initial capital costs and charges them back to the client through its rate structure. In 2001-2002, the Agency estimated they would purchase 153 cars and light trucks on behalf of departments.

9.153 Based on some life cycle costing, the Agency has determined a replacement schedule based on an optimal life cycle of seven years for Class A vehicles (cars) and six years for Class B vehicles (trucks).

9.154 The Agency has not yet reached this optimal replacement schedule. Vehicles are replaced according to what the budget will currently allow, not necessarily the optimal replacement time. An Agency analysis shows that 22% of cars (excluding executive vehicles) and 26% of trucks are eight years old or greater. That is, over 20% of the cars and light trucks are beyond the optimum replacement point.

9.155 It is possible that budget restraints that delay replacement beyond the norm could be resulting in false economies. If a vehicle is not replaced at its optimal time, the Agency avoids a capital cost. But this can turn into a false economy as future repair bills mount and the user faces increased downtime and safety concerns.

Recommendation

9.156 We recommended the Agency attempt to replace vehicles according to its own life cycle costing plan.

Departmental response

9.157 VMA agrees with the recommendation and will continue to replace vehicles using the various evaluation procedures it has at its disposal while staying within its budgeted allotment.

Inspection process - deciding to dispose of a vehicle

9.158 When staff feel there is a problem with a particular vehicle which might indicate it has reached the point where it should be disposed of, they call one of four regional inspectors. These individuals are trained to perform vehicle inspections for the purpose of making a decision to either repair or dispose of a vehicle. The inspector completes an equipment inspection report that would be used to facilitate the decision.

9.159 There are no formal guidelines as to when to use these inspectors. For example, inspectors do not inspect all class A vehicles over seven years old to determine whether they get a “passing grade”, or if they should be disposed of.

9.160 Further, while there are spending limits that require approval for individual repair jobs, there are no lifetime or annual spending limits that would trigger an inspection from a regional inspector. That is, one might expect that after a vehicle had accumulated a certain amount of lifetime maintenance and repair costs, there might be some indication that the vehicle required inspection.

9.161 During our audit we determined that there were several vehicles that, in our opinion, have had high repair costs. We obtained data from FMS detailing the Class A and B assets with the highest repair and maintenance costs for the year 2000-2001. All costs excluded accidents and capital costs. The repair dollars spent for the five vehicles with the highest yearly repair costs as recorded in FMS ranged from \$7,300 - \$12,000 per asset. Additionally we reviewed data from FMS on the five assets with the highest repair and maintenance costs over the life of the asset. The FMS report revealed that such expenditures ranged from \$57,000 - \$62,000 per asset. Of these Class A and B assets, there was only evidence of three vehicle inspection reports prepared by regional service co-ordinators. One inspection recommended replacement, but then recommended to “run due to lack of money”.

Recommendation

9.162 We recommended the Agency review the role of regional inspectors and develop guidelines for more systematic inspection schedules. For example, inspectors could inspect all assets over the optimal replacement age or all assets that exceed pre-established annual and/or lifetime spending limits.

Departmental response

9.163 Staff have intimate knowledge of assets assigned to their shop. Inspections are made based on their request. These inspections are in

themselves added security that the disposal decision made is the right one. Consideration must be given to the cost of implementing further measures.

Replacement of executive vehicles

9.164 Disposal decisions for so-called executive vehicles are a special case because the vehicle forms part of a compensation package offered by government. As set out in regulations under the *Financial Administration Act*, Deputy Heads may purchase their government vehicle every four years regardless of mileage. Ministers may replace their vehicles every four years or 150,000 km, whichever comes first. However, Ministers can only purchase their vehicle when they cease to be a member of the Executive Council.

9.165 As part of our audit, we looked at the approval process in place for repair work done to executive vehicles just prior to transfer of ownership. Shop staff we interviewed informed us they were sometimes confused over what to do and not do to an executive vehicle prior to disposal. Staff informed us they sometimes resort to asking management at head office for approval. There are many items an executive driver might want repaired prior to purchase. The problem lies in knowing what is fair and reasonable for both the purchaser and government. Should the vehicle be sold “as is” or should a significant amount of work be done prior to purchase? We were surprised to note that there is no formal policy in this regard.

9.166 We looked at work order history reports and some actual invoices for eight executive vehicles that were disposed of and subsequently sold to executive drivers. We noted that there were varying degrees of work done on these vehicles prior to disposal. In two cases, we noted that sets of four new tires were installed on the day of disposal. In one of these cases, the tires had been rotated and balanced the prior month. We further noted instances where engine work and transmission replacements were done just prior to disposal, and where speakers and air conditioners were repaired, and major car cleaning was done.

Recommendation

9.167 We recommended the Agency formalize and enforce policy regarding work to be done on executive vehicles prior to disposal.

Departmental response

9.168 *The current policy is to address safety and operating issues associated with the vehicle. This has been enforced in the past and will continue to be enforced in the future.*

9.169 We followed up on this response with the Department and confirmed there is no formal documented policy.

Conclusion

9.170 This criterion was not met. The Agency has carried out some life cycle costing and has established an optimal replacement schedule. But vehicle replacement is not based on this life cycle costing and information on the costs associated with maintaining vehicles beyond their economic lives is not known. Further, there is no systematic

program to inspect vehicles meeting certain criteria such as lifetime cost or age to determine whether they should remain in the fleet. Finally, there appears to be a need for more guidance in determining the acceptable level of repair that should be performed prior to disposal of an executive vehicle.

Fuel usage

9.171 Our second objective was:

To determine if the Vehicle Management Agency has adequate systems and practices in place to monitor and control the usage of fuel for government cars and light trucks.

9.172 Currently there are 101 government-owned fuel sites in the Province. Many sites have twenty-four hour access. Of the 101 fuel sites, 49 are automated and require users to swipe their cards for access. The remaining sites are manual. (Users are required to record their fuel usage manually on fuel issue sheets.) These fuel sites collectively dispense approximately 21 million litres of fuel annually to all government users. Drivers of government vehicles may also obtain fuel from a number of external vendors using government fleet credit cards. External fuel providers dispense approximately 6.2 million litres of fuel a year to all government users.

Fuel policy

9.173 Our first criterion was:

The Vehicle Management Agency should have clearly documented policy regarding the issuance and usage of fuel cards and credit cards.

9.174 Fuel access cards and credit cards are issued and administered by the Agency. The Agency issues two fuel access cards, a personal card and a vehicle card for the acquisition of fuel from government sites. A personal access card is for use by the driver assigned as the cardholder. It is not to be used by any other person. A vehicle access card is for use by the driver to fuel the specified vehicle for which the card was assigned. The driver is not permitted to use the vehicle access card on any other vehicle. Both cards must be presented for fuel purchases at government fuel sites. At the time of our audit, there were 11,066 personal and vehicle access cards issued in the Province for all types of vehicles.

9.175 A government fleet credit card is issued for use at external fuel vendors. This card is for use by the driver to fuel the specified vehicle for which the card was assigned. The driver is not authorized to use the card on any other vehicle. Government fleet credit cards have a purchase limit displayed on the card. This purchase limit ranges from \$75 to \$275. The only permissible purchases other than fuel are for fluids such as antifreeze, windshield washer and lubricants, and battery boosts, wash jobs, tire repairs, belts, wiper blades, vehicle lamps and

towing. At the time of our audit, there were 4,236 government fleet credit cards issued in the Province for all types of vehicles.

9.176 There are various policies that exist regarding the issuance and usage of fuel cards (personal and vehicle access cards) and government fleet credit cards.

9.177 The Vehicle Policy states: “credit cards will be issued and monitored as to use by the Vehicle Management Division of the Department of Transportation.” In our opinion, this clearly sets out the Agency’s responsibilities. However, vehicles assigned to Ministers, Deputy Ministers and Executive Assistants are exempt from this policy. There are no clear directives regarding responsibility for monitoring executive usage.

9.178 Some aspects of fuel and credit cards for Ministers are covered in government policy, as follows:

Credit cards are provided by Vehicle Management to cover operating costs and minor repairs. Major repairs are handled through Vehicle Management. Ministers are encouraged to use government garages for their gasoline as there is a considerable cost savings.

9.179 However, this document does not provide guidance regarding monitoring of fuel usage for executives. While in practice Agency staff are not differentiating between executive drivers and other drivers when it comes to fuel monitoring, we feel there should be a clear directive regarding responsibility for monitoring executive fuel usage.

Recommendation

9.180 We recommended the Agency formalize policy regarding monitoring of executive fuel usage.

Departmental response

9.181 *Under the revised Vehicle Policy, the monitoring of fuel usage is the responsibility of client departments. VMA will assist all clients in this regard by providing fuel usage reports, responding to inquiries, etc.*

9.182 The revised Vehicle Policy referred to in the departmental response was approved subsequent to our audit.

Conclusion

9.183 We determined that this criterion was met. We found there is sufficient policy regarding both the issuance and usage of fuel cards and credit cards for most users with one exception. We noted a lack of formalized policy regarding monitoring of fuel usage for executive users.

Communication of policy

9.184 Our second criterion was:

Policy regarding issuance and usage of fuel cards and credit cards should be clearly communicated to users.

9.185 While it is important to have policy in place, it is equally as important to ensure such policy has been adequately communicated to users. If the relevant parties do not know what the policy is or how it applies to them, the purpose of the policy has been defeated.

9.186 The Agency informed us that they have held training sessions for vehicle co-ordinators, distributed handbooks to all new drivers and have developed several memos for vehicle co-ordinators to relay information to drivers.

9.187 Because there are so many drivers in government, departmental vehicle co-ordinators are expected not only to collect fuel usage data from drivers for submission to the Agency, but also to act as somewhat of a “middle person” between the Agency and drivers. Agency staff informed us that while they provide all new drivers with handbooks, they expect that the vehicle co-ordinators relay the details to users. As part of our auditing we interviewed a number of drivers, both at the departmental and executive level. While the majority of drivers knew a handbook existed, few had read it or knew what information it contained.

9.188 There were several aspects of policy that drivers were unaware of and not following. For instance, while policy states that driver access cards are to be used solely by the person they are assigned to, drivers informed us they are sharing driver access cards. In addition, while drivers were generally aware that they should try to obtain fuel at internal government sites, they were not aware that a copy of discounts offered by each oil company was included as an insert in the front of all driver handbooks. Therefore, most were not utilizing such information regarding where to purchase fuel externally.

9.189 In particular, the executive drivers we interviewed were unaware of the driver handbook directive to purchase fuel at the vendor offering the greatest discount to government. In fact over half of all executive purchases were from the “highest cost vendor” offering the lowest discount to government on fuel and no discount on other products.

9.190 Agency staff informed us they provide vehicle co-ordinators with yearly correspondence regarding discounts available from external fuel vendors with the understanding being that vehicle co-ordinators forward the information to drivers. Obviously the expectation is that when at all possible, drivers should purchase fuel from the vendor offering the greatest discount to government. During our auditing, we determined that most departments had a vendor discount list; however, it was not always current. One vehicle co-ordinator informed us the most recent version they had received was in 1996.

Recommendation	9.191 We recommended that the Agency ensure drivers are provided with up to date listings of discounts from external vendors.
Departmental response	<p>9.192 <i>VMA will continue to provide client departments with up to date information on fuel costs.</i></p> <p>9.193 <i>It should be noted that VMA distributes a memo on discount fuel prices to all vehicle coordinators after each tender renewal. The memo stipulates the responsibility of vehicle operators to utilize DOT fuel sites as the preferred source of fuel. In cases where this may not be feasible operators are requested to utilize vendors offering the lowest net price to government. The memo further requests that the information be passed on to all vehicle operators including the executive fleet.</i></p> <p>9.194 Executive drivers were also unaware of other aspects of driver handbook policy. They were not reporting fuel usage monthly as required and often not retaining or submitting credit card slips or receipts when they did submit mileage reports. This requirement would be important for monitoring fuel usage. This lack of timely reporting on behalf of executive drivers was first noted in our 1996 Report. It appears as if there is still room for improvement.</p>
Recommendation	9.195 We recommended the Agency ensure that executives are aware of all aspects of policy, notably the requirement to submit credit card slips when submitting mileage reports.
Departmental response	<p>9.196 <i>VMA will ensure that all departments are made aware of the requirement for executives to submit credit card slips when reporting vehicle usage.</i></p> <p>9.197 We were pleased to see that the Agency has developed a user-friendly handbook. Although we recognize that not all drivers have internet access, we feel an Agency web site would be a useful further tool for many users to access policy related information. Drivers informed us they often did not know where their handbooks were, and therefore did not access them for information.</p>
Recommendation	9.198 We recommended the Agency consider developing a web site detailing policy for all drivers.
Departmental response	9.199 <i>VMA will consider the suggested strategy of a web site to relay information on various aspects of the Agency's business.</i>
Conclusion	9.200 This criterion was partially met. While the Agency has attempted to communicate policy through vehicle co-ordinators, often the information is not making it to the drivers. We found that few users had read the driver handbook or knew what information it contained.

Issuance of fuel cards and credit cards

9.201 Our third criterion was:

Fuel cards and credit cards should only be issued to eligible recipients.

9.202 Initial distribution is centralized. As discussed above, fuel cards (personal and vehicle access cards) are initially assigned to drivers by Agency staff at the time of vehicle release. Credit cards are assigned to a vehicle, not a driver.

9.203 Personal and vehicle access cards (internal fuel purchases) are assigned to the driver and vehicle respectively. In order to obtain fuel from an internal fuel site both cards have to be presented. During our audit we noted instances where personal access cards were being shared between employees. We noted two cases where personal access cards belonging to drivers that were no longer employees of government, were being used by other employees.

9.204 We determined that while departmental records of personal and vehicle access card assignments were up to date, the Agency's own records were not. We noted one case where the Agency's fleet system had record of a valid personal access card for a driver that had been deceased for three years. In fact, when we audited the Agency's list of current drivers in three departments with personal access cards, we noted that 21% of the names on the list were no longer employees of government. While we do not question the difficulty the Agency has in keeping track of "who has what card", we feel they are clearly obligated to do so.

Recommendation

9.205 We recommended the Agency ensure it has accurate records of fuel card and credit card assignments.

Departmental response

9.206 *VMA agrees with this recommendation. VMA will continue to review and enhance methods to ensure that it has accurate records of all assigned credit cards.*

9.207 *It should be noted that the AG's report made reference to VMA's records of personal and vehicle access cards as being out of date. (21% of the names on the list were no longer employees of government) By way of process, clients are requested annually to verify a listing of drivers who have been assigned credit cards. In this case, the high percentage of discrepancies found by the AG's office is attributed to the fact that the audit was performed just prior to when the list is annually updated and takes into consideration a significant number of employees that took advantage of the recent retirement package.*

Conclusion

9.208 The third criterion was partially met. We are comfortable that the Agency has systems in place to ensure that driver and vehicle access cards and credit cards are initially assigned to eligible recipients.

However, due to driver and vehicle changes, the Agency is often not aware of changes in card assignments.

Monitoring usage

9.209 Our fourth criterion was:

The Vehicle Management Agency should monitor usage of fuel cards and credit cards.

9.210 Because of the volume of fuel cards and credit cards, monitoring their usage is an important aspect of this audit. Monitoring is important not only to ensure policy is being followed but to detect fraudulent usage. As discussed above, government policy delegates the responsibility for monitoring fuel usage to the Agency. The policy states “credit cards will be issued and monitored as to use by the Vehicle Management Division of the Department of Transportation.” The Agency is to “monitor vehicle usage to ensure compliance with this policy and report non-compliance to the appropriate deputy head”.

9.211 We were surprised to note that despite this policy, Agency management staff insisted that they felt monitoring of fuel usage was not their responsibility but that of individual departments. They reported to us that this aspect of policy has been informally delegated to the vehicle co-ordinators within each government department. Three of the four vehicle co-ordinators we interviewed did not know this was their responsibility and none were doing it.

Recommendations

9.212 We recommended the Agency monitor fuel usage in accordance with government policy.

9.213 We recommended the Agency improve communications with departmental vehicle co-ordinators regarding the expectations for fuel monitoring to ensure adequate monitoring at the department level.

Departmental response

9.214 *VMA agrees with the recommendation and will take steps to communicate and implement the revised Vehicle Policy so that vehicle co-ordinators are aware of their fuel monitoring responsibilities.*

9.215 The revised Vehicle Policy referred to in the departmental response was approved subsequent to our audit.

9.216 When drivers submit records of their fuel usage to their respective departmental co-ordinators on a monthly basis, they are to also submit their mileage and actual hard copy fuel receipts for fuel obtained from external vendors. In the various departments we audited, fuel co-ordinators were collecting the data from drivers, but by no means auditing it. In some cases, they were not even obtaining hard copy vendor receipts to match up to what the driver reported. In one department we audited, 96% of the external fuel purchases had no hard copy vendor receipts. This is especially important now that major oil

companies are processing purchases electronically so the Agency no longer receives a hard copy receipt. To compensate for this loss of control, the Office of the Comptroller requested that the Agency audit a sample of credit card transactions on a monthly basis. Despite the fact that this was also a recommendation noted in our 1996 audit of the Agency, Agency staff are still not doing this. Thus, the Agency is paying fuel invoices received electronically from vendors with no verification of authenticity of the charges. This is significant as for the fiscal year ending in 2002, the Agency paid a total of \$2,623,537 for all vehicles to external vendors.

Recommendation

9.217 We recommended the Agency audit a sample of credit card vendor invoices for authenticity on a monthly basis.

Departmental response

9.218 *VMA will continue to monitor fuel usage identified through specific exception reporting. (ex: fuel exceeding tank capacity, etc.) Regular fuel monitoring will be the responsibility of the client departments as stipulated in the new Vehicle Policy.*

9.219 Neither Agency staff nor departmental vehicle co-ordinators are comparing fuel consumption to kilometres of usage. Agency staff informed us that often the kilometres driven by clients are not reported or reported as estimates, so this would be difficult to do anyway. In the three departments we audited, 15% of all assets had no kilometrage reported for a given month. One department in particular showed that 37% of its assets reported no kilometrage for the month. We audited some executive driver files and found that they would often not report kilometres driven for six to seven months at a time.

9.220 We can understand the difficulty in monitoring fuel obtained to kilometrage reported, if kilometrage is inaccurate or not reported in a timely fashion. However, we feel it is a necessary exercise to avoid fraudulent use of cards. In one instance we noted where a van reported 1,728 km for a month, with fuel purchases for the same month of 800 litres. This computes to an average usage of 46.3 litres per 100 km. We looked at Energuide ratings and the highest rating for this type of vehicle is 17.3 litres per 100 km. According to these ratings, the vehicle in question should have used a maximum of 299 litres. Additionally, the average litres per 100 km over a four-month period for all other similar vehicles in government was 18.4 versus 38.4 with this vehicle. Agency staff could provide us with no explanation for this.

Recommendation

9.221 We recommended the Agency ensure kilometres travelled are accurately reported on a monthly basis.

Departmental response

9.222 *VMA relies on the client departments to submit actual usage of assigned vehicles on a monthly basis. This usage is checked for accuracy using a number of editing processes each month prior to it being utilized*

in the billing process. VMA will continue to use these review processes to verify client usage.

Recommendation

9.223 We recommended the Agency consider comparing kilometrage to fuel consumption through random sampling as a tool to monitor fuel usage.

Departmental response

9.224 *As noted previously, monitoring of fuel is the responsibility of the client departments. VMA will continue to monitor and advise client departments of extraordinary usage through the use of specific exception reports.*

9.225 Currently, the Agency's own role in monitoring fuel usage is limited to producing some monthly fuel exception reports and the preparation of a fuel audit report for departments upon request. Staff informed us that while a few departments do request detailed information on fuel for auditing purposes, most do not. While the Agency is producing some exception reporting that would assist in fuel monitoring, the reports are often produced but not reviewed or followed up on. We were disappointed in this finding, as these same findings were noted in our 1996 audit where the Agency agreed to improve monitoring.

9.226 An external fuel warning report is produced noting exceptions for fuel charged against assets not in service, transactions that exceed the credit limit, multiple transactions for that date, and fuel charged that exceeds tank capacity. Agency staff informed us that while this is supposed to be produced and reviewed monthly, often this is not the case. The first external fuel warning report we requested was several pages long, with little indication of any follow up.

9.227 Several exceptions related to fuel exceeding tank capacity, meaning that the fuel purchased was more than what could fill the fuel tank. This could be due to one of two reasons. Either the volume of fuel purchased was actually more than that individual vehicle would hold or the tank capacity recorded by the Agency in FMS was lower than the actual capacity. We audited a sample of fourteen exceptions where fuel obtained exceeded tank capacity. In all fourteen cases, these exceptions were due to the fact that fuel was actually obtained for more than the tank could hold.

9.228 An internal fuel warning report includes the same exceptions as for the external fuel warning report, except for the transactions exceeding the credit card limit, as internal fuel cards have no credit limit. Again, these reports are supposed to be produced monthly, but often are not. They are not regularly reviewed and followed up on. An Agency staff member informed us they generally only follow up on four or five items a month due to a lack of time.

9.229 The Agency also produces an unbilled fuel transaction report. This shows all transactions which cannot be billed to an asset. This may be due to no fuel type recorded, wrong type of fuel for that particular asset, no asset number provided, or an asset that is not currently assigned to a department. Some exceptions will not allow the reporting to continue until they are cleared. Others end up on the exception report itself. At the time of our audit, this report was not readily available to all users in FMS but was an ad hoc report currently being prepared by the IT section of VMA. We noted instances where exception items noted in June were again noted in October. Apparently, these items had gone unresolved for months.

9.230 Agency staff informed us that FMS has the capability of segregating unacceptable non-fuel charges that have been charged to a credit card. When electronic invoices from external fuel vendors are uploaded into FMS, charges coded as non-fuel items are processed and require a review by Agency staff. Agency staff have the option to accept or reject the transaction at this point. Examples of such charges would be cigarettes, restaurant food and grocery items. Because external vendors have signed a contract that clearly states they are not to accept charges such as this, Agency staff informed us they refuse payment for these items. However, Agency staff informed us that items coded as convenience store are not flagged in any way. They are processed as acceptable charges, regardless of what the charge was for. Staff informed us that this is due to the fact that some vendors might code legitimate charges (e.g. windshield washer fluid) as a convenience store item and there would be too many of these for Agency staff to investigate. Staff informed us of the difficulties in administering contracts with vendors. They do not have the time to ensure that vendors are adhering to the rules of the contract. One staff member said they would have to hire two or three individuals simply to monitor the appropriateness of charges coded as miscellaneous or convenience store items.

Recommendations

9.231 We recommended the Agency ensure fuel exception reports are not only produced monthly, but reviewed monthly. Any exceptions should be followed up in a timely manner.

9.232 We recommended the Agency clearly document follow up on exceptions in fuel reports.

Departmental response

9.233 *VMA will continue to produce and forward fuel exception reports to clients on a monthly basis. In addition, VMA will continue to assist clients in reviewing and following up on specific issues as appropriate.*

Recommendation

9.234 We recommended the Agency ensure that vendors are complying with the terms of the contract. This would include producing and reviewing exception reports for large and unusual items charged as convenience store items.

Departmental response

9.235 *VMA will ensure vendors are aware and comply with the terms and conditions of the external fuel contract. VMA will request that vendors produce reports that accurately identify all purchases made on the credit cards.*

9.236 *In response to an issue raised in the AG's report respecting cases where the amount of fuel purchased exceeded the tank capacity, it should be noted that there are unique circumstances where such reporting would be expected. Examples would be in cases where assets had multiple fuel tanks installed, operators were required to transport fuel to job site in separate containers or where certain automotive items were purchased and not identified as a separate product.*

Conclusion

9.237 This criterion was not met. The Agency is not monitoring fuel as clearly required by government policy. While some exception reporting exists, the reports are often not reviewed and exceptions are often ignored.