



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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17-31 Fleet Savings Verification

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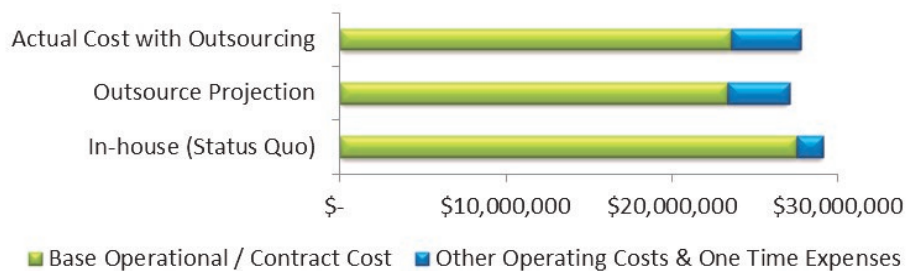
Purpose

The purpose of this audit was to verify actual fleet maintenance cost compared to the estimated cost of outsourced services for the three calendar years 2014 to 2016.

Highlights

Following an analysis of various cost savings options for fleet services and competitive bidding, Serco, Inc. was selected to provide outsourced fleet maintenance services for the City and Colorado Springs Utilities beginning January 1, 2014. We concluded that the actual costs attributed to outsourced fleet maintenance (utilizing a third party vendor) were within 2.6% of the outsource projection. Actual cost with outsourcing compared to the services performed in-house (status quo) were within 4.7%.

Fleet Contract Cost met projections but overall savings were not achieved due to **Other Costs** from 2014 - 2016



The City and Colorado Springs Utilities were able to manage the contract for outsourced Fleet operations to achieve costs close to planned contractual obligations. The outsourced vendor contract cost was within 0.85% or \$197,534 of the estimated cost. Contract cost variance was due to changes in fleet size and non-target costs (non-routine defined maintenance per contract.) Total Fleet operation expenses, including the contracted services, resulted in savings of \$1.4 million compared to expected savings of \$2.0 million, or 30% less than planned.

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Recommendations

1. Fleet administrators should improve communication, tracking, and reconciliation of changes in Fleet inventory.
2. Fleet administrators should improve invoice review processes and request a refund for over billing.

Opportunity

1. Fleet administrators should consider fleet management system improvements to systematically identify work as target or non-target at the time work commences.

Management Response

See responses with each recommendation.

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Actual cost for years 2014 to 2016 included the outsourced vendor contract cost as well as internal costs to transition and manage fleet operations.

In the original outsourcing decision analysis, projected 2014 to 2016 cost of fleet maintenance activities performed in-house (status quo) was \$29,142,672. The actual cost attributed to fleet maintenance between 2014 to 2016 was \$27,774,044, resulting in savings of \$1,368,628. The decision to outsource was based on anticipated savings of \$2,066,334, however actual savings were \$697,705 less than planned.

Cost variances, higher and lower than planned, for internal costs to transition and manage fleet operations are provided in the following table.

Fleet Variances Compared to Plan 2014 - 2016	
Pinkerton	\$ 423,549
Other Operating Expenses	\$ 158,963
Software	\$ 147,526
Fleet Unit Adjustments	\$ 95,558
Performance Bonds	\$ (60,000)
Aerial Inspections	\$ (66,603)
Contract Administration	\$ (76,041)
One Time Expenses	\$ (122,781)
Total Other and One Time	\$ 500,171
Contract Variance	\$ 197,534
Total Variance	\$ 697,705

The Pinkerton service facility was added by Utilities after the decision to outsource had been made and was not considered in the original plan. In the Fleet operations transition, financial statement reporting of fleet costs moved from an internal service fund to the general fund. The accounting treatment change required a \$300,000 write off of obsolete inventory. The write off was a non-cash journal entry and was not included in our savings analysis. Useable parts inventory were sold to Serco in the contract and the remaining obsolete parts were sold. The inventory was obsolete whether operations were performed by City or a third party vendor.

The cost of fuel was excluded from the outsourcing analysis and from our analysis of performance for 2014 to 2016.

The contract allowed for adjustments to the fixed cost due to changes in the additions and deletions of Fleet units serviced each year. Changes in units and non-target costs account for the Contract Variance amount above.

Future Considerations

The contract for outsourced fleet maintenance had established pricing for the first three years and a clause allowing for adjustments in the final two years 2017 and 2018. For the years 2014—2016, the actual cost of this contract was within .85%, or \$197,534 of the original estimate. According to public records, the vendor had asked for an increase in the contract amounting to over 20%, or \$1.4 million annually, while the contract limited the increase to the Consumer Price Index (CPI), which was 2.6%. Subsequent information indicates the settlement between the City and the contractor included price escalations over 2016 contract costs as follows: January—March +6.5%, April—June +2.6%, and July—December +8.0%. 2018 price increase over 2016 pricing will be +8.0% +current CPI+1.0%. The exact amount will not be known until all adjustments for fleet inventory have been made and the CPI is known.

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Observation 1

The audit identified instances where unit inventory and billing did not match between the contractor's invoices and City owned asset tracking system. Further review indicated insufficient communication and a lack of detailed review of the contractor invoices. Invoiced and actual fleet inventory should match within reasonable timing differences unless excluded based on predetermined criteria. Since costs increase or decrease based upon inventory changes, the discrepancies indicate inaccurate inventory reconciliation and unknown contract cost impact. While it was not part of the audit scope, we could not reconcile the inventory asset system to capital asset listings.

Management Response

We agree with the recommendation. We are implementing a thorough quarterly inventory review, instead of monthly, between City of Colorado Springs and Serco, and Colorado Springs Utilities and Serco.

Recommendation

City and Utilities fleet administrators should establish, communicate, and follow a documented process to ensure the accuracy of vendor billing, including fleet unit changes. City and Utilities should make adjustments to reflect the correct number of units being maintained by the contractor by entity (City and Utilities) and consider conducting a fleet unit physical inventory on some recurring basis to be reconciled to system records.

Observation 2

Audit review of fleet contractor invoices found the target cost was overpaid by \$149,908 for invoices submitted from 2014 to 2016. (City- \$93,982 and Utilities - \$55,926) due to changes in the Fleet inventory. We noted multiple instances where fleet units per vendor invoice were added or deleted multiple times creating errors in inventory counts and corresponding calculated contract maintenance costs billed.

Management Response

We agree with recommendation. We are taking the recommended corrective action to implement a uniform process to evaluate fleet inventory adjustment costs.

Recommendation

City and Utilities administrators should document and implement a process to review and reconcile changes in fleet inventory subject to contract costs.

Amounts that were overbilled should be reviewed with the vendor for corrections.

Opportunity for Improvement

Invoice amounts were classified as either targeted (planned maintenance) or non-targeted service. The work orders created to track service do not indicate the classification. This lack of classification resulted in difficulty in obtaining, validating and reviewing invoices and services.

Management Response

We agree with the recommendation. We have implemented a process to identify and categorize non-targeted work orders on a daily basis to address this observation.

Recommendation

City and Utilities Fleet administrators should work with the contractor to determine if work orders can be classified as target or non-target work at the time work orders is created. If possible, work orders should be properly classified when created.