



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

15-23
2015 Fleet Audit

August 2015



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Purpose

The purpose of the audit was to verify actual fleet maintenance cost compared to the estimated cost for the first year of outsourced services ending December 31, 2014. Additionally, Fleet units were categorized to explain the average age of vehicle and equipment as of December 31, 2014.

Highlights

Following an analysis of various cost saving 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 1.18% of the estimated costs. For 2014, the first year of outsourcing, combined City and Colorado Springs Utilities fleet maintenance costs were estimated to be \$9,522,617. Actual 2014 costs were \$112,199 greater than estimated. When results were analyzed by entity, the City costs were \$43,100 (0.81%) lower than estimated and Colorado Springs Utilities' costs were \$155,299 (3.67%) higher than estimated for the first year of outsourced services by Serco.

Changes made to the number of units and the addition of a Utilities' service center were not part of the initial cost estimate. If these costs were excluded from the analysis of results, the total cost for fleet services would have been \$90,314 lower than originally estimated.

The City and Utilities overall fleet unit average age was 10.84 years. The equipment average age varied by department. Vehicle average age was approximately 8 years for Utilities and Police. For Fire, the average age was 10 years. For general City, it was 13 years.

Two observations and two opportunities for improvement were identified. The details can be found in the attached report.

Management Response

Management was in agreement with our recommendations. Their complete response can be found in the attached report.

Recommendations

Observation 1— Management should establish processes to bill Serco for utility usage at Pinkerton and City service locations.

Observation 2—The City and Colorado Springs Utilities should make adjustments to reflect the additional auditor-identified changes in the number of fleet units being maintained by Serco.

Opportunities for Improvement

1. Management should update the process for analyzing estimated to actual costs based on year-one lessons learned.

2. Utilities should document the expected return on investment or business rationale for projects before funds are expended.



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REPORT DETAILS

SCOPE AND OBJECTIVE

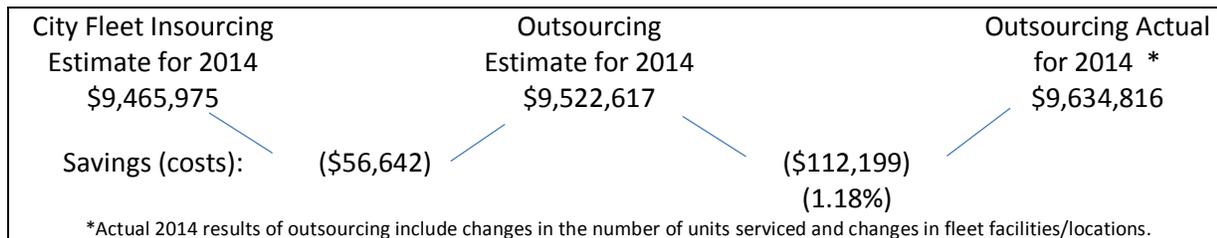
The purpose of the audit was to verify fleet maintenance outsourced cost compared to the original estimated cost for the first year of services ending December 31, 2014. We also categorized fleet units in order to explain the average age of different classifications as of December 31, 2014.

Three-year cost savings of \$2.0 million were projected for the first three years of the Serco contract. The Office of the City Auditor will include an audit of actual three-year results in its 2017 Audit Plan.

CONCLUSION

We concluded that the actual costs attributed to outsourced fleet maintenance (utilizing a third party vendor) in 2014 were within 1.18% of the estimated costs. For 2014, the first year of outsourcing, combined City and Colorado Springs Utilities fleet maintenance costs were estimated to be \$9,522,617. Actual 2014 costs were \$112,199 greater than the estimated 2014 fleet costs using Serco. When results were analyzed by entity, the City costs were \$43,100 (0.81%) below estimates, and Colorado Springs Utilities costs were \$155,299 (3.67%) above plan for the first year of outsourced services by Serco.

The following diagram illustrates the combined City and Colorado Springs Utilities 2014 estimated in-house cost, estimated outsourcing cost, and the actual outsourcing cost.



Utilities management decisions made after the Serco bid award to add fleet maintenance services at the Pinkerton Service Center will increase future Utilities' annual operating costs by over \$150,000 and will reduce future estimated savings by this amount as well.

The auditors reviewed fleet inventory listings to determine the average age of vehicles and equipment maintained as part of the Serco contract. The overall average age of all fleet units was 10.84 years. While the equipment average age was comparable, vehicle average age was approximately 8 years for Utilities and Police. For Fire, the average age was 10 years. For general City, it was 13 years. As part of the Serco contract, the number of units being maintained was adjusted to actual in 2015. This change in the number of units affected the year-end results for both the City and Colorado Springs Utilities.

The change in units and the decision to add a Utilities service center were not part of the initial cost estimates when outsourcing decisions were made. Fleet maintenance costs for 2014, excluding unit changes and the added service location, were \$90,314 better than estimated.



During the course of the 2014 audit, we identified two observations and two opportunities for improvement. These areas are discussed beginning on page 7 of this report. We appreciate the cooperation of City and Colorado Springs Utilities personnel in the course of this audit.

BACKGROUND

CITY AND COLORADO SPRINGS UTILITIES FLEET MANAGEMENT

Outsource Decision

Prior to 2014, the City of Colorado Springs provided in-house fleet management and maintenance for roughly 3,800 vehicles and equipment. These services were provided for Colorado Springs Utilities, Police, Fire, Public Works, Parks, Pikes Peak Rural Transportation Authority, and other enterprises. Fleet maintenance was performed at ten service locations.

A Fleet Management and Maintenance Service Request for Proposal (RFP) was issued jointly by the City of Colorado Springs and Colorado Springs Utilities in December 2012. The RFP Section 4.4 said, "The City/Utilities will evaluate all proposals submitted as well as its own in-house capabilities to perform fleet services." The RFP Evaluation Committee recommended Serco, Inc. to the City and Utilities senior management as the vendor for fleet services. The recommendation memo cited cost savings, national buying power, Serco innovations, and local presence as benefits for this selection. The recommendation indicated a three year net present value (NPV) savings of approximately \$2 million if services were outsourced to Serco.

According to the May 2013 Evaluation Committee Recommendation memo, Serco was selected as the vendor for outsourced fleet services over three other bidders, current in-house operations, and Utilities providing in-house fleet maintenance.

Fleet Outsourcing Process

Per the December 2012 RFP, firms were invited to propose on five options presented below.

Option A – all of City and Utilities

Option B – City only

Option C – Utilities only

Option D* – all of City and Utilities, except City Fire Department

Option E – all units in Option A, except select Utilities units

Alternate 1 – labor rate proposal for Airport-only, for select services

** D1-excludes select units in Fire fleet*

Four vendor proposals were received and evaluated by a technical evaluation team and a financial evaluation team. The technical evaluation team included fourteen voting members: six members representing various City Departments (Police, Fire, Streets, Airport, and Fleet); five members representing Utilities; two community members; and an independent consultant. The technical team evaluated and scored the four proposals based on criteria identified in the RFP, including:



-
- Project approach, ability to meet needs of City/Utilities
 - Qualifications, experience and proposed staffing
 - Vendor financial stability
 - Transition plan
 - Innovations and proposed service improvements
 - Exceptions
 - References
 - Local footprint (use of local and special-class vendors as subs/suppliers)

The financial evaluation team prepared comparative financial information for the technical team and senior management. The financial evaluation team included the City Chief Financial Officer, Utilities General Manager of Finance, Assistant City Auditor, and two staff members—one each from City and Utilities. The financial evaluation team prepared cost comparisons between vendors, which were also compared to current in-house fleet costs and potential Utilities in-house fleet services. The cost evaluation team did not score or vote on bids.

To prepare in-house cost data, the financial team primarily used historical fleet maintenance costs and billings to the City and Utilities. An assumption of 2.6% Consumer Price Index escalation factor was used for annual cost increases over the three year period 2014 to 2016.

Once the evaluations were complete, the technical evaluation team served as the Evaluation Committee. The Evaluation Committee, using the technical evaluation and cost proposal data, made a recommendation to City and Utilities senior management to outsource fleet management and maintenance services to Serco, Inc. The majority of the technical team felt that it was in the City's best interest to exclude the Fire Department heavy duty apparatus (pumpers, ladder trucks, heavy rescue vehicles) that were maintained by a staff of four Fire fleet personnel. However, the light duty Fire vehicles maintained by City personnel would be included in the Serco contract. Police motorcycle maintenance was also excluded from the Serco services.

The Serco bid scored highest by the technical team and was the lowest cost bid among the four vendor proposals received. Serco's cost bid was also less than comparative City or Utilities in-house service costs. Utilizing Serco was estimated to generate a \$2 million NPV savings over the first three years and \$4 million NPV in savings over the full contract period of five years. The Office of the City Auditor plans to include an audit of actual three-year results in the 2017 Audit Plan.

In November 2013, the City of Colorado Springs and Colorado Springs Utilities entered into a Public-Private Partnership with Serco, Inc. to provide fleet management and maintenance services to the City and Colorado Springs Utilities. A five-year contract with Serco took effect January 1, 2014.

2014 Projected and Actual Cost Performance

For this audit, the Office of the City Auditor compared the actual first year fleet maintenance cost to the projected first year cost used in the outsourcing and vendor selection decision. Consistent with the data used by the Evaluation Committee, cost information is shown as combined and individually for City and Utilities. Our work included verification and completeness testing of the actual 2014 costs using the contract, fleet inventories, and invoice data.



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2014 results were estimated to be \$56,642 more than in-house cost while actual costs were \$112,199 greater than the estimated costs. For 2014, the City planned fleet cost of \$5,289,323 and actually spent \$43,100 less than planned. Utilities planned for \$4,233,294 and actually spent \$155,299 more than planned. Detailed financial results are provided below.

Variance to plan by entity				
2014 Fleet maintenance related costs				
Entity	Projected ^A	Actual	Variance	% of plan
City	\$ 5,289,323	\$ 5,246,223	\$ 43,100	0.81%
CSU	\$ 4,233,294	\$ 4,388,593	\$ (155,299)	-3.67%
Total	\$ 9,522,617	\$ 9,634,816	\$ (112,199)	-1.18%

^A Projected figures from RFP financial team analysis May 2013.

Total actual spending exceeded planned spending by \$112,199 in 2014. The variance in actual cost from planned is shown in the table below. If the impact of the change in units and the decision to add the Pinkerton center are excluded, the total cost for fleet services would have been \$90,314 less than the outsourcing estimate shown above.

Variance Analysis			
Estimated cost vs. 2014 actual. Positive numbers indicate savings compared to plan.			
Category	City	CSU	Total
One-time activities	\$ 116,671	\$ 0	\$ 116,671
Impact to operating cost	\$(18,433)	\$ (7,925)	\$ (26,358)
Pinkerton addition	\$ 0	\$ (112,023)	\$ (112,023)
Impact of Unit changes	\$ (55,138)	\$ (35,351)	\$ (90,489)
Total	\$ 43,100	\$ (155,299)	\$ (112,199)

Explanation	
One-time activities	<i>Severance/benefit costs were \$71,527 less than expected and payment received for existing parts inventory was \$45,144 more than expected. These are both first-year only activities.</i>
Impact to operating cost	<i>A variety of cost savings and increases contributed to this category, including software costs, aerial inspections and other operating costs.</i>
Pinkerton addition	<i>Colorado Springs Utilities added a fleet service location at its Pinkerton facility starting in April 2014. The cost for Serco to operate this location was not included in the estimated cost for 2014.</i>
Impact of Unit changes	<i>Increased cost due to the net change in units maintained under the contract.</i>

Colorado Springs Utilities decided after the Serco bid award and before the contract was signed, to add a fleet maintenance operation at one of their facilities, the Pinkerton Service Center. The addition was not part of the RFP or financial analysis indicating \$2 million Serco savings noted in the Evaluation Committee Recommendation. Utilities management identified a reduction of time and fuel to transport

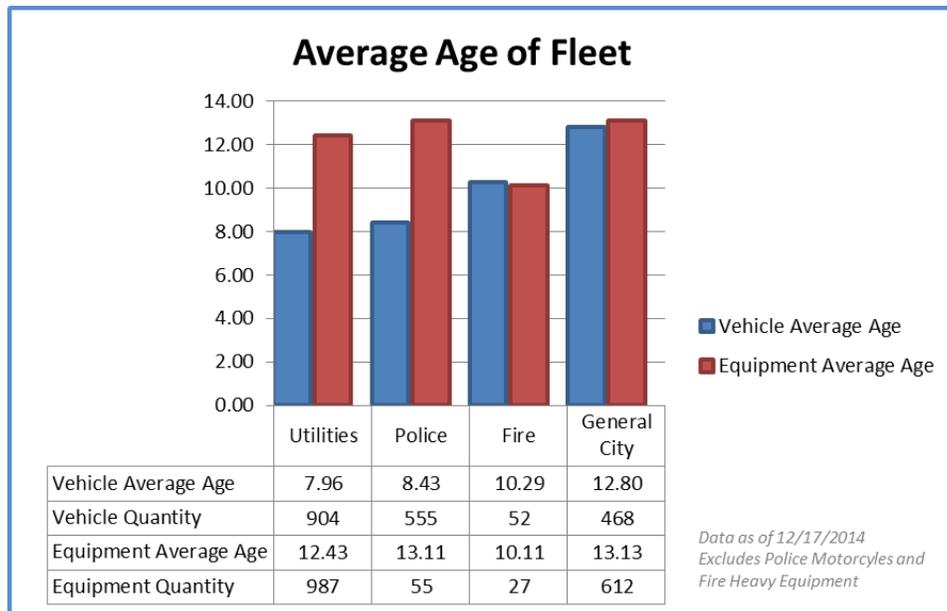


vehicles to other fleet maintenance sites as the reason for the addition. This new site became operational in April 2014 and increased Serco staffing resulting in \$112,023 in additional Serco contract costs from April through December 2014. For 2015 through 2018, this change will result in increased Utilities costs by more than \$150,000 per year. Also, Utilities incurred \$191,441 (\$86,463 in capital cost plus \$104,978 in expenses) primarily in 2013, to prepare the new site for fleet maintenance operations.

We identified minor corrections to the internally tracked cost data and to the impact on contract cost due to inaccurate fleet inventory listings. The corrections increased 2014 internally reported costs by \$54,632 or 0.57%. Corrections included identifying a duplicate billing that resulted in approximately \$28,000 in savings. These corrections were reported to management.

FLEET AGE ANALYSIS

In conjunction with the fleet outsourcing cost analysis, we reviewed the age of the fleet at the City and Colorado Springs Utilities. The following table depicts the average age of equipment and vehicles¹ for both the City of Colorado Springs and Colorado Springs Utilities as well as an aggregate fleet age at the inception of the Serco contract and as of December 17, 2014.



The units in the above analysis do not include Police motorcycles and heavy Fire apparatus, which were not part of the outsourced fleet agreement.

¹ The distinction between vehicles and equipment was made in the RFP documents. Certain categories, such as typical passenger cars and trucks, were considered vehicles while equipment was a broader grouping including many types of light and heavy duty equipment such as front end loaders, cranes, trailers and snow plows.



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Fleet replacements were based on available budget, age, and mileage of vehicle units. Colorado Springs Utilities management indicated they strive to replace vehicles at eight to ten years old and/or 80,000-100,000 miles. While the City had similar goals, funding limitations have severely restricted their ability to maintain a newer-aged fleet. Available City funds for fleet replacement were largely focused on the public safety departmental fleet.

Fleet Replacement Budget and Actual				
	City *		Colorado Springs Utilities	
Year	Budget	Actual	Budget	Actual
2012	\$2,593,813	\$2,456,650	\$4,126,750	\$4,094,171
2013	\$1,291,537	\$1,278,167	\$2,700,000	\$2,144,554
2014	\$3,332,666	\$2,662,216	\$11,560,000	\$11,318,220
2015	\$2,784,666	N/A	\$10,257,000	N/A

* City includes all funds, excluding Fire, Transit and Airport.



OBSERVATION 1 – SERCO WAS NOT BEING BILLED FOR ALL UTILITY USAGE PER CONTRACT

According to the contract with Serco, section 17(h):

"Contractor will be responsible for supplying and paying for all utilities to the Service Location facilities during their occupancy by Contractor. For facilities which receive service through a master utility meter for the entire site, Contractor shall pay its proportionate share of utility charges based on its utility usage as determined by Colorado Springs Utilities."

Utilities billing was established by Colorado Springs Utilities for the Fontanero and Leon Young service locations which began operation under Serco as of January 1, 2014. The Pinkerton location was not operational until April 2014, and utilities billing was not established.

The City did not establish a procedure for billing Serco for their prorated share of utilities at city-owned facilities. The cost of outsourcing fleet maintenance was not reduced by the amount of utilities cost Serco was contractually obligated to pay.

AUDITOR'S RECOMMENDATION

City and Utilities management should establish processes for billing Serco for utility usage at Pinkerton and at City service locations, including prior periods.

MANAGEMENT RESPONSE

CITY OF COLORADO SPRINGS:

City of Colorado Springs agrees with the recommendation. City fleet staff, with the help of Colorado Springs Utilities, will develop a proportionate share of utility charges that will be reconciled with Serco, based on its utility usage at the Police Substations and Body Shop. Serco's proportionate share of utility charges will be determined, and reconciliation will be completed by November 1, 2015.

COLORADO SPRINGS UTILITIES:

Colorado Springs Utilities agrees with the recommendation. Utilities fleet staff assisted Serco with establishing a billing account for the Pinkerton location at 7730 Durant Drive. A meter reading took place on July 6, 2015. The results equated to a \$15,739.95 back charge from the April 2014 starting date through late June 2015. Full payment has been received from Serco, and regular monthly billing for utility usage will occur going forward.



OBSERVATION 2 – CONTRACT COST ADJUSTMENTS WERE NEEDED FOR 17 FLEET UNITS

The fleet contract included preventive maintenance costs per unit (vehicle or equipment) with a provision to adjust the costs for changes in the fleet size and composition. In the audit, we reviewed the units added and subtracted for the impact on the preventative maintenance costs. We compared the original list of fleet units in the contract with additions and removals to a list of units in the fleet asset management system at the end of 2014. The difference between the adjusted contract units after the 2014 true-up and the fleet asset management system was 20 units.

The following outlines the disposition of each of the 20 units.

- 6 units were transferred back to Fire for maintenance. These units should have been removed from the City's unit inventory.
- 1 unit was removed from service, but kept as a display. This unit should have been removed from Colorado Springs Utilities unit inventory.
- 8 units were erroneously listed as Utilities. They were added to the City's inventory list. These units should have been removed from Colorado Springs Utilities list.
- 2 units were re-added to the City's list when the unit number was changed. The old units should have been removed from the City's list.
- 3 remaining units were simply unit number changes and no contract adjustments were necessary.

A reconciliation of units was performed at 2014 year-end by the City and Colorado Springs Utilities to ensure the contract contained all units being maintained by Serco. This reconciliation resulted in identification of \$118,000 in additional cost for Serco services. When this reconciliation was reviewed by the auditors and compared to the original contract listing of units, 17 units were identified that should result in a future adjustment of \$28,156 in savings on the Serco contract.

AUDITOR'S RECOMMENDATION

The Office of the City Auditor recommends that the City and Colorado Springs Utilities make adjustments to reflect the additional auditor-identified changes in the number of fleet units being maintained by Serco.

MANAGEMENT RESPONSE

The City of Colorado Springs and Colorado Springs Utilities agree with the recommendation. Staff from both entities worked diligently with Serco to make true-up adjustments. City staff will ensure the 6 units and 2 units identified above are removed from the City's unit inventory list. Colorado Springs Utilities staff will ensure the other 9 units listed incorrectly are removed from the Utilities unit inventory. These corrections are expected to be completed by September 1, 2015.



OPPORTUNITY 1 – REPORTED ACTUAL RESULTS WERE NOT CONSISTENT WITH ESTIMATE

The Fleet Contract Administrator prepared a report for management which compared the estimated costs to the actual costs incurred for the first year of outsourced fleet maintenance. In order to provide an accurate comparison, the same costs should be considered in the actual total as were included in the estimate.

The audit performed by the Office of the City Auditor identified three areas where corrections were needed to the management report of results to ensure consistent comparison of projected to actual.

- 1) \$40,018 in additional cost was incurred by the City and \$55,542 incurred by Colorado Springs Utilities for net additions to fleet units maintained by Serco, but these amounts are \$1,380 too high; additionally, 20 units were discovered to have been mischarged for a total net of \$29,536 in cost reduction identified.
- 2) An additional \$58,761 of Colorado Springs Utilities personnel cost along with \$6,242 of other expenses and \$36,278 of aerial inspection cost should have been added to the "other additional costs" line item. These other additional costs added by audit adjustment total \$101,281.
- 3) Serco paid the City \$252,562 to purchase existing inventory. Two payments were made, but only the first for \$235,450 was included in the analysis. The second payment in the amount of \$17,112 should also be included.

The net impact of these issues was \$54,632 in additional costs identified, which should be included in the management report. These issues do not impact the financial statements or invoices for Serco.

AUDITOR'S RECOMMENDATION

The City and Colorado Springs Utilities management should review the errors identified by the audit and consider updating the reporting process and controls. Based on year-one lessons learned, actual costs reported should be consistent with costs included in annual estimates and costs that were considered in the decision to outsource. The City and Utilities should share information to ensure completeness and accuracy. Corrections identified by the auditors should be incorporated into the 2014 actual cost management report.

MANAGEMENT RESPONSE

None Provided. Management responses are not required for opportunities for improvement.



OPPORTUNITY 2 – THE PROJECTED RETURN ON INVESTMENT OR BUSINESS RATIONALE RELATED TO ADDING THE PINKERTON SERVICE CENTER WAS NOT DOCUMENTED PRIOR TO EXPENDING FUNDS

According to information we were provided (but did not audit), \$191,441 was spent to prepare the Pinkerton Service Center for fleet maintenance services, which started operation in April 2014. This additional service location added \$112,023 to the operating cost of the Serco contract for Colorado Springs Utilities in 2014. The contract cost increase due to the Pinkerton fleet operations will be \$154,490 for 2015. The increase will be \$157,036 for 2016. Utilities management reported that cost savings were anticipated by the addition of this service center via employee productivity improvement and fuel savings. According to a March 2013 consultant report, the projected cost savings related to adding a service facility at the Pinkerton location would be \$124,300 per year.

Utilities began exploring the addition of a fleet maintenance service center at Pinkerton in 2012, and started incurring costs to prepare the facility in November 2012 with most of the cost occurring in late 2013. The initial reason was to prepare for the possibility that Utilities would assume responsibility for its own fleet maintenance.

AUDITOR'S RECOMMENDATION

Colorado Springs Utilities management should document the expected return on investment or business rationale for projects before funds are expended.

MANAGEMENT RESPONSE

None Provided. Management responses are not required for opportunities for improvement.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

About our Office

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

Audit Standards

The audit was conducted in a manner that conforms with the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.

The audit included interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.