

Clause embodied in Report No. 2 of the Audit Committee, which was before the Council of the City of Toronto at its meeting held on March 1, 2 and 3, 2004.

2

Fleet Operation Review - Phase One

(City Council on March 1, 2 and 3, 2004, deferred consideration of this Clause to the Special meeting of City Council scheduled to be held on April 15 and 16, 2004.)

The Audit Committee recommends that:

- (1) City Council direct that the report (November 18, 2003) from the Auditor General be forwarded to those City organizations who separately manage their own fleet operations including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division in order to ensure that the issues raised in this report are addressed by them where appropriate, and that these organizations be required to report back to the October 2004 meeting of the Audit Committee in connection with the results of their review, specifically addressing:**
 - (a) fuel site use and management, including:**
 - (i) daily fuel reconciliation procedures and administration; and**
 - (ii) compliance with Ontario's Technical Standards and Safety Act fuel site inspections by the Technical Standards and Safety Authority;**
 - (b) vehicle procurement, utilization and disposal activities;**
 - (c) fleet safety activities; and**
 - (d) initiatives to minimize the environmental impact of respective fleets;**
- (2) the Commissioner, Corporate Services report annually on the status of initiatives undertaken as outlined in the Fleet Services Future Plan, including timelines and expected completion dates, such report to also include the status of the action plans previously approved by Council but not included in the Future Plan; and that the first such report to be forwarded to the September 2004 meeting of the Administration Committee;**
- (3) the Commissioner, Corporate Services, in consultation with other City departments who directly manage fuel sites, the Toronto Police Service, Emergency Medical Services Division and Fire Services Division, complete a comprehensive assessment of all City-owned fuel sites, with a view to:**

- (a) evaluating existing fuel sites, considering such factors as the age, size, type, volume, utilization, location and condition of the fuel tanks;**
- (b) evaluating the benefits and costs, including environmental concerns/benefits of maintaining the fuel sites;**
- (c) evaluating the benefits and costs of closing and decommissioning the fuel sites;**
- (d) recommending the retention or closure of each fuel site based on the results of the evaluation and cost-benefit analysis and long-term fuel supply strategy including any future use of alternative fuels such as biodiesel;**
- (e) developing a long-term strategy, including the cost implications and timelines, for the closure and decommissioning of those fuel sites identified for closure, if any, in (d) above;**
- (f) developing a coordinated long-term fuel site use and management strategy for all City-owned fuel sites, including consideration of single accountability for all City-owned fuel sites, and addressing:
 - (i) policies and procedures with respect to the administration and operation of all such sites including the training of appropriate staff. The policies and procedures provide for receipt of fuel, daily dipstick readings and reconciliation, and the maintenance of the fuel site facility and equipment;**
 - (ii) practices for ensuring daily fuel reconciliations are properly completed, discrepancies where identified are investigated and corrective action taken on a timely basis, and that all such reconciliations be subject to supervisory review and approval with evidence of such review in writing;**
 - (iii) a review of the computerized fuel dispensing systems in use, including Profuel, in order to ensure that:
 - (a) controls as originally designed in the system are operating appropriately;**
 - (b) reports, which identify unusual fuel consumption transactions, are generated and reviewed by supervisory staff, such transactions investigated and where necessary appropriate action is taken. Evidence of the review and any follow-up action be documented in writing; and**
 - (c) reports are generated which track fuel consumption on a vehicle by vehicle basis;******

- (7) as recommended by the Budget Advisory Committee in February, 2002, the Commissioner, Corporate Services and the Chief Financial Officer and Treasure report back on the long term strategy for operating contributions to the Vehicle and Equipment Replacement Reserve; and submit such report to the September 2004 of the Administration Committee;**
- (8) the Commissioner, Corporate Services, establish fleet emission and fuel efficiency standards and ensure that these standards are incorporated in the fleet management information system when implementing the recommendations in this report with respect to the monitoring of City vehicles' fuel usage and utilization; and that any significant deviation from these standards be investigated and appropriate corrective action taken where necessary;**
- (9) the Commissioner, Corporate Services, develop and establish a corporate policy and clear criteria for the assignment and use of take home vehicles by all departments. Current assignments be re-evaluated and periodic reviews conducted to ensure that vehicles are appropriately assigned and meet the established criteria; and**
- (10) the Commissioner, Corporate Services, report back to the July 2004 meeting of the Audit Committee, and every six months thereafter, on the status of implementation, and specific timelines, of the recommendations contained in the report (November 18, 2003) from the Auditor General;**
- (11) the Commissioner, Corporate Services, report back to the Audit Committee in July 2004 on the status of implementation of the Auditor Generals' recommendations and a formal work plan for implementation, based on the initial management response outlined in the report (February 11, 2004) from the Commissioner of Corporate Services and in Appendix "A" of the report;**
- (12) the Fleet Services Steering Committee, facilitated by the Fleet Services Division, be utilized as the inter-departmental and inter-agency co-ordinating mechanism to assist the Commissioner of Corporate Services to respond to and implement the Auditor Generals' recommendations;**
- (13) the Commissioner of Corporate Services report to the Administration Committee on the potential use of solar panels, or any other alternative energy sources in order to eliminate idling of City vehicles, and that the use of such alternative energy resources be applied to all the City's Agencies, Boards and Commissions; and**
- (14) the Commissioner of Corporate Services report to the Administration Committee on Green Fleet criteria for all vehicles purchased by the City.**

The Audit Committee reports having requested the Auditor General, in consultation with the Chief Financial Officer and Treasurer, to report directly to Council on the number of vehicles rented by the City, and their annual mileage, on a year-by-year basis, since amalgamation.

The Audit Committee submits the report (November 18, 2003) from the Auditor General:

Purpose:

To report the results of Phase One of a two-part review of the City's fleet operations.

Financial Implications and Impact Statement :

There are no direct financial implications resulting from the adoption of this report. However, the adoption of certain recommendations contained in this report will strengthen internal controls and result in efficiencies and cost savings. The extent of future cost savings is not determinable at this time. The adoption of other recommendations, in our view, can be accomplished with existing resources.

Recommendations :

It is recommended that:

- (1) City Council direct that this report be forwarded to those City organizations who separately manage their own fleet operations including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division in order to ensure that the issues raised in this report are addressed by them where appropriate. These organizations be required to report back to the October 2004 meeting of the Audit Committee in connection with the results of their review, specifically addressing:
 - (a) fuel site use and management, including:
 - (i) daily fuel reconciliation procedures and administration; and
 - (ii) compliance with Ontario's Technical Standards and Safety Act fuel site inspections by the Technical Standards and Safety Authority;
 - (b) vehicle procurement, utilization and disposal activities;
 - (c) fleet safety activities; and
 - (d) initiatives to minimize the environmental impact of respective fleets;
- (2) the Commissioner, Corporate Services, report annually on the status of initiatives undertaken as outlined in the Fleet Services Future Plan, including timelines and expected completion dates. The report should also include the status of the action plans previously approved by Council but not included in the Future Plan. The first such report to be forwarded to the September 2004 meeting of the Administration Committee;
- (3) the Commissioner, Corporate Services, in consultation with other City departments who directly manage fuel sites, the Toronto Police Service, Emergency Medical Services Division and Fire Services Division, complete a comprehensive assessment of all City-owned fuel sites, with a view to:

- (a) evaluating existing fuel sites, considering such factors as the age, size, type, volume, utilization, location and condition of the fuel tanks;
- (b) evaluating the benefits and costs, including environmental concerns/benefits of maintaining the fuel sites;
- (c) evaluating the benefits and costs of closing and decommissioning the fuel sites;
- (d) recommending the retention or closure of each fuel site based on the results of the evaluation and cost-benefit analysis and long-term fuel supply strategy including any future use of alternative fuels such as biodiesel;
- (e) developing a long-term strategy, including the cost implications and timelines, for the closure and decommissioning of those fuel sites identified for closure, if any, in (d) above;
- (f) developing a coordinated long-term fuel site use and management strategy for all City-owned fuel sites, including consideration of single accountability for all City-owned fuel sites, and addressing:
 - (i) policies and procedures with respect to the administration and operation of all such sites including the training of appropriate staff. The policies and procedures provide for receipt of fuel, daily dipstick readings and reconciliation, and the maintenance of the fuel site facility and equipment;
 - (ii) practices for ensuring daily fuel reconciliations are properly completed, discrepancies where identified are investigated and corrective action taken on a timely basis, and that all such reconciliations be subject to supervisory review and approval with evidence of such review in writing;
 - (iii) a review of the computerized fuel dispensing systems in use, including Profuel, in order to ensure that:
 - (a) controls as originally designed in the system are operating appropriately;
 - (b) reports, which identify unusual fuel consumption transactions, are generated and reviewed by supervisory staff, such transactions investigated and where necessary appropriate action is taken. Evidence of the review and any follow-up action be documented in writing; and
 - (c) reports are generated which track fuel consumption on a vehicle by vehicle basis;
 - (iv) overall management responsibility for all non-computerized (manually operated) fuel sites ensuring all adequate records are maintained and appropriate controls are in place to facilitate control over fuel usage at these sites;

- (v) controls relating to the supply of fuel for all commercial fuel sites and ensure that fuel usage reports are generated for all vehicles using commercial fuel supply. These reports be reviewed for reasonableness by supervisory staff and appropriate action taken, where necessary. Evidence of such review and any follow-up action be documented in writing;
 - (vi) fuel site inspections by the Technical Standards and Safety Authority for all City-operated fuel sites in order to ensure compliance with Ontario's Technical Standards and Safety Act; and
 - (g) The Commissioner, Corporate Services, report back to the September 2004 meeting of the Administration Committee in connection with the above;
- (4) the Commissioner, Corporate Services, in accordance with the directive of Council and in consultation with City departments, establish a policy and procedure requiring that a business case be provided by all departments for all vehicle and equipment acquisitions, including justification for all new or replacement vehicle or equipment, taking into consideration the actual usage and purpose of the vehicle being replaced;
- (5) the Commissioner, Corporate Services:
- (a) develop and generate quarterly vehicle usage reports, the purpose of which is to identify vehicles that exhibit usage significantly different than expected;
 - (b) provide vehicle usage reports to operating departments for their review and analysis, requesting explanation for significant variances and suggested corrective action where necessary; and
 - (c) identify opportunities for the pooling of vehicles, where departmental needs do not require full use of the vehicles and request the transfer of such vehicles to the corporate pool for either reassignment or disposal;
- (6) the Commissioner, Corporate Services, in consultation with all City departments, establish a policy and procedure requiring that a detailed business case be provided by all departments for all vehicle and equipment disposals. Such business case to provide consideration of all relevant costs including the replacement cost, total work orders and estimated future costs of maintaining the vehicle or equipment, particularly if it still has some life expectancy, as well as the determination of whether the vehicle or equipment could be reallocated to another program area in the City;
- (7) as recommended by the Budget Advisory Committee in February 2002, the Commissioner, Corporate Services, and the Chief Financial Officer and Treasurer report back on the long-term strategy for operating contributions to the Vehicle and Equipment Replacement Reserve and that such strategy also re-visit the lease financing option for vehicle acquisitions, as directed by Council in 2000, and submit such report to the September 2004 meeting of the Administration Committee;

- (8) the Commissioner, Corporate Services, establish fleet emission and fuel efficiency standards and ensure that these standards are incorporated in the fleet management information system when implementing the recommendations in this report with respect to the monitoring of City vehicles' fuel usage and utilization. In addition, any significant deviation from these standards be investigated and appropriate corrective action taken where necessary;
- (9) the Commissioner, Corporate Services, develop and establish a corporate policy and clear criteria for the assignment and use of take home vehicles by all departments. Current assignments be re-evaluated and periodic reviews conducted to ensure that vehicles are appropriately assigned and meet the established criteria; and
- (10) the Commissioner, Corporate Services, report back to the July 2004 meeting of the Audit Committee on the status of implementation of the recommendations contained in this report. Such a status to include specific timelines for implementation.

Background:

The Auditor General's 2003 Work Plan anticipated that a review of fleet operations would be undertaken. The extent of the City's fleet operations is significant. Consequently, in order to ensure a timely reporting of results, our review has been divided into two phases. Phase One of the review, which is the subject of this report, covers the following areas:

- fuel management;
- vehicle procurement, utilization and disposal;
- vehicle and equipment replacement reserve;
- the greening of the fleet program; and
- fleet safety.

Phase Two of the review of the City's fleet operations covers the following:

- fleet maintenance;
- the fleet maintenance information system;
- inventory controls; and
- customer service.

It is anticipated that the second phase of the review will be completed in the second quarter of 2004.

Audit Objectives and Scope

The objectives of the review were to assess the effectiveness of the City's fleet operations with respect to the specific areas covered in the review and identify opportunities for improvement, cost savings and improved efficiencies and controls.

Our audit work included the following:

- review of the June 29, 1999 report of KPMG LLP entitled "Review of Existing Fleet and Garage Operations";

- review of the Fleet Services Future Plan, February 2001 and the December 2001 update, and other relevant reports to Council pertaining to Fleet Services Division;
- interviews with senior management and staff from the Fleet Services Division of the Corporate Services Department;
- interviews with senior management and staff from operating departments including Works and Emergency Services and Economic Development, Culture and Tourism;
- review of relevant policies and procedures;
- examination of relevant documents, management reports and records;
- analyses of data;
- review of audit reports, fleet practices and standards in place at various municipalities including the following:
 - Austin, Texas
 - Baltimore, Maryland
 - Chicago, Illinois
 - Edmonton, Alberta
 - New York City, New York
 - Ottawa, Ontario
 - San Jose, California
 - Seattle, Washington
- review of audit reports issued by the Auditor General of Canada; and
- visits to six fuel dispensing sites operated by City departments.

The data contained in this report has been provided to us by management. While we have reviewed this information for reasonableness, the specific data has not been audited.

Our review focused on the fleet operations managed by the Fleet Services Division and other operating divisions. Our review did not include the fleet operations within the Toronto Police Service, Emergency Medical Services Division and Fire Services Division, which are managed by the respective entities. However, it is important to note that the recommendations in this report may be applicable to each one of these organizations.

At the outset of the review, we facilitated a series of meetings and workshops with key staff of Fleet Services Division to identify the Division's business objectives, the associated risks and the consequences of non-achievement of the objectives.

As a result of these meetings, Fleet Services' staff in consultation with staff from the Auditor General's office ranked their business objectives in order of priority as follows:

1. Safety – minimize rates of accidents and personal injuries.
2. Regulatory Compliance – comply with federal, provincial and municipal regulations.
3. Internal Compliance – comply with corporate policies.
4. Contract Compliance – comply with the terms of external contracts.
5. Fraud Prevention and Detection – ensure City vehicles, equipment, fuel, facilities, and parts are used for authorized City business only.
6. Asset Safeguarding – protect City vehicles, equipment, fuel and facilities from loss or damage.
7. Continuity of Operations – hire and retain competent staff and maintain adequate facilities and equipment.
8. Customer Service – provide service at reasonable cost in a timely manner.
9. Product Quality – acquire vehicles that meet operational needs and provide reliable service.
10. Minimizing Unnecessary Costs – acquire vehicles at reasonable cost, right size the fleet and optimize vehicle utilization.
11. Reliable Business Information – maintain accurate and complete information and provide useful management reports on a timely basis.
12. Revenue/profit Maximization – maximize proceeds from disposal of vehicles and equipment.

While our review has not included an analysis of how the Division has met each one of these objectives, it has focused on areas where in our view the greatest opportunities for cost savings and efficiencies exist.

A summary of significant audit observations is provided below, followed by a detailed commentary on each of the areas covered under Phase One of our review of the City's Fleet Operations.

Significant Audit Observations

- Inefficiencies continue to exist as a result of amalgamation. These inefficiencies relate to the under-utilization of certain vehicles, as well as the need to review the large number of fuel dispensing locations throughout the City.
- Recommendations in this report may have relevance to those City organizations who operate their own fleets. These organizations include the Toronto Police Service, Emergency Medical Services Division and the Fire Services Division. This report should be forwarded to them for their review and consideration.

- The fleet has been downsized by approximately 17 per cent since amalgamation.
- In 1999, Council adopted in principle the recommendations of the KPMG LLP report entitled “Review of Existing Fleet and Garage Operations” which focused on the consolidation of fleet operations of the former municipalities upon amalgamation. Council subsequently received various reports in this regard including the “Fleet Services Future Plan”. However, certain action plans, primarily a cost/benefit analysis of maintaining City-operated fuel sites, remain outstanding.
- The Fleet Services Division manages 23 fuel sites and other operating divisions operate a further 25 fuel sites. The Toronto Police Service, Emergency Medical Services Division and Fire Services Division operate a further 46 fuel sites. A number of the fuel site locations are within close proximity to one another presenting potential opportunities for reducing the number of sites operated.
- There is a need for the City to develop a long-term strategy on the future direction with respect to fuel management and the maintenance of its own fuel sites. The long-term strategy should include a recommendation as to whether the merits of being in the fuel dispensing business outweighs the costs and business risks, including environmental risks, associated with storing and dispensing fuels. A report on this issue requested by City Council has been outstanding since 2001.
- The 48 City-operated fuel sites are not controlled and/or operated by one City department. There is a need for a centralized control over all City-operated fuel sites. Such a control is essential to ensure that procedures are being consistently followed, appropriate reports are prepared and reviewed, fuel use reconciliations are being conducted and unusual transactions are investigated.
- There are inconsistencies in the reconciliation procedures for fuel inventory at City-operated fuel sites designed to detect fuel loss. The possibility exists that fuel loss due to leakage or misappropriation may not be identified through the reconciliation process and therefore could occur without being detected. Any fuel leakage left undetected, could potentially result in significant environmental impacts and financial costs.
- The current systems and procedures of recording and controlling fuel usage for vehicles are inadequate. Consequently, it is not possible to determine the fuel efficiency of individual vehicles nor is it possible to identify any potential loss or misappropriations of fuel. Our review identified a number of situations where certain vehicles were refueled in excess of their vehicle fuel capacity.
- The Fleet Services Division initiated fuel site inspections to be conducted by the Provincial Technical Standards and Safety Authority on 23 fuel sites which are managed by the Division. In our view, these site inspections should be extended to all City fuel dispensing locations.

- Operating departments are responsible for vehicle assignment and utilization. However, there is no centralized monitoring of vehicle utilization across the City. Our review identified a number of vehicles with low annual mileage. Of 580 cars and light trucks reviewed, 226 (39 per cent) travelled less than 10,000 kilometres in a year, including 39 vehicles which travelled less than 5,000 kilometres in a year, which suggests that certain of these vehicles are under-utilized. Under-utilized vehicles should either be disposed of or reallocated to those Departments requiring vehicles.
- Management reports relating to vehicle utilization and fuel usage are inadequate. Although some of the relevant information is available, there is lack of management review and analysis of the information.
- Current practice does not require written justification for vehicle and equipment replacement. With respect to disposals, a condition assessment of the vehicle or equipment is required prior to disposal. However, the condition assessment form designed for this purpose is not always completed. There is no documentation supporting the disposal. This documentation should include estimated future repair costs, future utilization, as well as an indication that steps have been taken to determine whether or not the vehicle could be reallocated to other departments. A business case should be mandatory for each vehicle and equipment replacement and disposal.
- A three-phase zero-based vehicle and equipment review was contemplated as part of the implementation plan of the recommendations in the KPMG LLP fleet review. The first phase involved a five per cent reduction of the total fleet. The second phase covered a review of Parks and Recreation Division of the Economic Development and Culture Department and the third phase covered Works and Emergency Services and the balance of City departments. The third phase of the review has not yet been completed.
- The Fleet Services Division established a Fleet Acquisition and Specifications Support Team in 2002 comprised of staff from various City departments to improve the vehicle procurement process. One of the issues identified by the Team was the fact that there were too many vehicle specifications. The Team has now established standard vehicle specifications to help streamline the vehicle procurement process and a three-year “affordable” replacement program.
- Contributions to the Vehicle and Equipment Replacement Reserve have not kept pace with the requirements to fund future replacements. Although a proposed formula for operating contributions to the Reserve has been established, it has not been implemented, mainly due to budget constraints. There is a need to establish a long-term strategy for operating contributions to the reserve, which had been recommended by the Policy and Finance Committee during the 2002 capital budget deliberations. The report requested by Council in relation to this matter is still outstanding.
- The Fleet Services Division has undertaken a number of Green Fleet initiatives toward reducing fleet emissions and conserving fuel to support the City’s commitment to improve air quality. One of the goals of the City’s Greening the Fleet Program is harmful emissions reduction. However, the lack of meaningful monitoring of fuel usage and

utilization of individual vehicles including those recently purchased under the Greening the Fleet Program makes it difficult to assess the effectiveness of harmful emissions reduction program initiatives.

- The City's Fleet Safety and Training Program has improved significantly since a 2001 safety audit by the Ontario Ministry of Transportation. In that audit, the City was assessed with an unsatisfactory compliance rating of 37.5 per cent for its safety and training program. Failure by the City to correct the identified deficiencies could have resulted in fines, impounding of vehicles or shutdown of operations. A follow-up audit in 2002 by the Ministry of Transportation assessed the safety and training program to be 100 per cent in compliance with Ministry requirements. The City's overall rating, which included an assessment of the City's driver and vehicle profiles, improved from 50.7 per cent to 83.7 per cent.
- The City does not have a corporate-wide vehicle take-home policy. Certain departments have developed their own vehicle take-home policies. The development of a corporate policy would ensure consistency governing decisions to designate employees requiring take home vehicles and also provide guidance for staff. There is a need to compare current practices with any new policy and make changes where appropriate.
- There is an outstanding report requested by City Council relating to a lease versus purchase option relating to the financing of the City fleet.

Comments:

Fleet Services Division of Corporate Services Department is responsible for fleet inventory management, life cycle management, fleet replacement and disposal, maintenance, licensing and registration of all City vehicles covered under the Highway Traffic Act, Commercial Vehicle Operator's Registration Program, and all vehicles and equipment with wheels and axles and having a replacement value exceeding \$5,000. Vehicles and equipment with a value under \$5,000 (e.g., golf course maintenance equipment) are the responsibility of the respective departments. Fleet Services Division is also responsible for the Fleet Safety Program, which is required under the Commercial Vehicle Operator's Registration Program.

Fleet Services Division's responsibility for the above functions covers a fleet of 4,039 vehicles and equipment including passenger cars, vans, snowplows, heavy trucks, packers, loaders and groundskeeping equipment. An analysis of the City's Fleet inventory is contained in Appendix 1 and 2. According to a report prepared by KPMG LLP in June 1999 entitled "Review of Existing Fleet and Garage Operations", the fleet at the time of the municipal amalgamation on January 1, 1998 consisted of 4,885 vehicles and equipment. Based on these statistics, the fleet has been downsized by approximately 17 per cent since amalgamation.

Fleet Services Division operates on a full-cost recovery basis, which effectively means that all of its costs are recovered through charge backs to the operating departments. The Division's gross expenditure budget for 2003 was \$31.4 million (2002 - \$32.3 million). A summary of the Division's revenue and expenditures is provided in Appendix 3 of this report. The Division incurred a deficit of approximately \$1 million in 2002, the majority of which was due to the fact

that not all maintenance expenditures were charged out to the benefiting departments. This matter will be reviewed further in Phase Two of our review.

The Division does not manage the fleets of the Toronto Police Service, Emergency Medical Services Division or Fire Services Division. These fleets are managed by the respective organizations. In addition, the Toronto Transit Commission manages its own fleet, as do the other local boards of the City, such as the Toronto Zoo and Exhibition Place.

In 1998, immediately after amalgamation, a review of corporate fleet and garage operations was conducted by external consultants, KPMG LLP. The review focused on the consolidation of fleet operations of the former municipalities as a result of amalgamation. The scope of KPMG LLP's study, according to the report issued was "to include the entire fleet in the new City of Toronto excluding the Police, TTC and the emergency services departments of Fire and Ambulance".

To the best of our knowledge, a review of the fleet operations of the Toronto Police Service, Emergency Medical Services Division and Fire Services Division has not been conducted since amalgamation. The recommendations contained in this report may have applicability to those City organizations and as such this report should be forwarded to them for their review, consideration and reporting back to the Audit Committee.

Recommendation:

1. City Council direct that this report be forwarded to those City organizations who separately manage their own fleet operations including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division in order to ensure that the issues raised in this report are addressed by them where appropriate. These organizations be required to report back to the October 2004 meeting of the Audit Committee in connection with the results of their review, specifically addressing:
 - (a) fuel site use and management, including:
 - (i) daily fuel reconciliation procedures and administration; and
 - (ii) compliance with Ontario's Technical Standards and Safety Act fuel site inspections by the Technical Standards and Safety Authority;
 - (b) vehicle procurement, utilization and disposal activities;
 - (c) fleet safety activities; and
 - (d) initiatives to minimize the environmental impact of respective fleets.

In 1999, Council adopted in principle the recommendations of the KPMG LLP Fleet Review and requested the Chief Administrative Officer to report further on an implementation plan.

In August 2000, Council received for information, a report from the Commissioner of Corporate Services entitled "Implementation Status Update – Review of Corporate Fleet and Garage Operations". This report provided a status update on the implementation of the

recommendations passed by Council, including those recommendations included in the KPMG LLP Fleet Review Report. It was further recommended that the Commissioner of Corporate Services report on a strategic plan and an organization structure for fleet maintenance management.

In 2001, Council adopted the Fleet Services Future Plan, which outlined five key strategies:

- fiscal performance;
- customer satisfaction;
- safety and compliance;
- greening the fleet, and;
- mobilizing staff.

Although the strategies identified in the Fleet Services Future Plan are comprehensive, they do not address certain issues raised in the KPMG LLP review, particularly with respect to fuel site management.

While the Fleet Services Division has reported to the Administration Committee on individual areas such as garage closures and the implementation of standard labour hours as covered in the Future Plan and the KPMG LLP fleet review, there has not been a formal comprehensive update on the status of the initiatives undertaken to meet the objectives of the Future Plan since its adoption in 2001.

Recommendation:

2. The Commissioner, Corporate Services, report annually on the status of initiatives undertaken as outlined in the Fleet Services Future Plan, including timelines and expected completion dates. The report should also include the status of the action plans previously approved by Council but not included in the Future Plan. The first such report to be forwarded to the September 2004 meeting of the Administration Committee.

Fuel Management

City-owned and Operated Fuel Sites

The Corporation operates a total of 105 fuel sites across the City and managed as follows:

<u>Entity</u>	<u>Number of Sites</u>
Fleet Services Division	23
Other City Departments	25
Fire Services Division	23
Emergency Medical Services	1
Toronto Police Service	22
Toronto Transit Commission	8
Toronto Zoo	2
Exhibition Place	<u>1</u>
Total	<u>105</u>

Appendix 4 is a site location map indicating the location of all fuel sites operated by City departments. Appendix 5 is a map containing the same information, as well as the locations of the fuel sites operated by Toronto Police Service, Emergency Medical Services Division and Fire Services Division. These maps do not include the locations of those fuel sites operated by the Toronto Transit Commission, the Toronto Zoo and Exhibition Place. As illustrated on these maps, a number of the fuel site locations are in close proximity to one another. Consequently, opportunities may exist for the closure of certain sites.

We have not conducted an extensive review of the utilization of these City sites. However, based on the statistics, the 48 fuel sites managed by City departments provide fuel to approximately 4,000 vehicles and motorized equipment. Very simply, this translates into one site for 83 units of vehicle and equipment. In contrast, the City of Baltimore for example operates 25 fuel sites for approximately 6,500 vehicles and motorized equipment or 260 units per site. While we have not analysed the reasons for such a significant disparity, it does raise questions concerning the number of fuel dispensing locations in the City.

While we appreciate that the maintenance of City-operated fuel sites provides convenience and cost savings through bulk purchasing, it also carries costs and risks, particularly with respect to environmental issues. The 1999 KPMG LLP Fleet Review Report stated that the merits of being in the fuel business do not outweigh the costs and business risks associated with storing and dispensing fuels. It was recommended by KPMG LLP that the City strategically exit the fuel business over time but maintain some emergency fuel supply capacity to deal with emergencies and alternative fuels capacity where commercial availability is not extensive. This report, however, did not consider emerging environmental emission reducing fuels such as biodiesel that are not commercially available.

In considering the KPMG LLP report, City Council directed the Commissioner, Corporate Services to “report to the Administration Committee by March 31, 2000, on a strategy for closing fuel sites, including recommendations on sites that are to close, and those that should remain open for operational reasons, timelines, cost implications of decommissioning tanks, and options for alternative fuel supply and no action be taken to implement any of the strategies until the report is brought back to the Administration Committee.” In a further report to Council in July 2000, it was indicated that this report would be delayed to 2001. To the best of our knowledge, this report is still outstanding.

In summary, there is a need for comprehensive review and assessment of the fuel sites operated by the City with a view to determining the condition of existing fuel sites, the rationale and costs of maintaining them, including the use of alternative fuels such as biodiesel, and the potential costs of closing and decommissioning the sites. Such a review was contemplated in the Fleet Services Future Plan adopted by Council in March 2001 but has not yet been completed and is not included in the December 2001 revisions to the Future Plan.

Administrative Controls Relating to Fuel Site Operations

The responsibility for the administration of fuel sites has not been allocated to one department. In fact, our review necessitated a significant amount of time in locating information relating to fuel site locations, as well as in identifying those staff in various departments responsible for their administration.

Of the 48 fuel sites managed by City departments, 23 are managed by Fleet Services Division, 14 by Parks and Recreation Division, 8 by Solid Waste Management Division and 3 by Fire Services Division. The three sites managed by Fire Services Division use the Profuel System, which was in place prior to amalgamation. The majority of the fuel sites are unattended and some of them are accessible 24 hours a day to meet operational needs.

The management of the fuel sites involves a number of functions including ordering and receipt of fuel deliveries, taking of daily manual dipstick readings and reconciling them to fuel gauge readings, investigating equipment malfunction, ensuring the safe operation of the fuelling facility, and the recording and controlling of fuel usage. These functions are currently shared by Fleet Services Division and the operating divisions and as a result, there is no centralized oversight control over the total fuel site operations. In addition, there are no formal City-wide policies and procedures in place with respect to the internal administration and operation of the fuel sites.

Fuel site operations are governed under the Technical Standards and Safety Act and associated regulations. Non-compliance with the Act could result in fines, penalties, or the closure of operations. The Fleet Safety Unit of Fleet Services Division has included training on fuel handling in its Fleet Safety Program. However, it provides training only to drivers of City vehicles and equipment on the proper fuelling procedures of a vehicle or equipment. The program does not include training of the employees responsible for fuel site operations such as those taking dipstick readings or handling fuelling equipment.

The lack of oversight control over fuel site operations increases the risk of fuel loss through either fuel leakage or misappropriation. For example, one of the key functions of fuel site management involves the taking of daily manual dipstick readings and reconciling these to fuel gauge readings and recorded amounts. This procedure helps to ensure that any significant fuel loss is detected and investigated on a timely basis. It is therefore important that consistent and accurate readings are taken by staff who have been adequately trained for this purpose. Our review indicated that there are inconsistencies in the reading/reconciliations process which impair its effectiveness. In addition, there are no internal standards established as to the amount of discrepancy identified in the reconciliation process that would require follow-up. The possibility exists that fuel loss due to leakage or misappropriation may not be identified through the reconciliation process and therefore could occur without being detected. Any fuel leakage left undetected, could potentially result in significant environmental impacts and financial costs.

In our view, providing centralized administrative and operational control over all City-owned fuel sites would ensure consistent application of policies and procedures and improve efficiency.

Fuel Usage – Internal Fuel Supply – Profuel System

Of the 48 fuel sites managed by City departments, 38 sites use a computerized dispensing and administration system called Profuel. This system requires a fuel card similar to a credit card to access the dispensing equipment. This system also has the capability to produce various reports in relation to fuel transactions. The other 10 fuel sites, mainly for off-road vehicles such as loaders or packers, use a manual system for recording fuel usage.

In 2002, fuel purchases including gasoline, diesel, propane and natural gas for the 38 fuel sites using the Profuel System amounted to approximately 10.5 million litres at a total cost of approximately \$5.8 million.

Fleet Services Division is responsible for the monitoring of the Profuel System. Specific fuel cards are assigned to a vehicle or a piece of equipment. The assignment to specific vehicles is to facilitate the appropriate charge back to individual departments. In addition, the system is also intended to act as a control on fuel usage for specific vehicles.

It was noted, however, that although a separate card is issued for equipment, some drivers use the same fuel card assigned to a vehicle to also re-fuel certain other equipment, such as compressors, lawnmowers, etc. Consequently, it is not possible to determine the fuel efficiency of individual vehicles nor is it possible to identify potential misappropriations or loss of fuel. One of the features of the Profuel System is a requirement that individual cards be assigned to vehicles and individual pieces of equipment. If this is not done, the accuracy and usefulness of the system is compromised. Consequently, there is a need to either enforce the requirement of using separate fuel cards for vehicle and equipment or introduce a system which takes into account the fuelling needs of equipment.

Each time a vehicle fuel card is used, the driver is prompted to enter the vehicle's odometer reading before fuel is dispensed. The Profuel System has built-in controls to restrict or limit the amount of fuel that can be dispensed at each re-fuelling. However, these controls are not being used. For example, the system as presently configured will accept an odometer reading of 50,000 even if the previous reading from the last re-fuelling were 5,000. Our review also identified certain transactions showing a vehicle re-fuelling for an amount in excess of its fuel capacity. Consequently, there is a need to modify the current system to set acceptable odometer readings and fuel limits within reasonable intervals. Accurate odometer readings and fuel consumption are essential to measuring fuel efficiency, as well as to detect fuel misappropriations.

Although all fuel transactions are recorded in the Profuel System or in manual records, there are no procedures in place to analyze fuel usage. The Profuel System is not utilized in the manner intended. Further, no reports are generated to assist management in identifying unusual transactions such as identical or erroneous odometer readings or fuel usage over specified limits, which could signify equipment problems or potential abuse.

Fuel Usage – Internal Fuel Supply – Manual System

The remaining ten City-operated fuel sites use a manual system of recording fuel usage. Of these fuel sites, seven are managed by Solid Waste Management Services Division and three by Parks and Recreation Division. The sites provide dyed diesel for off-road unlicensed vehicles such as bulldozers or tree-cutting equipment.

Fuel consumption data for these locations are processed by the operating division and the costs are charged directly to their division. The records of fuel usage are maintained and kept at each individual site. However, this information is not provided to Fleet Services Division nor has Fleet Services Division requested for it.

While the misappropriation of dyed fuel is less likely than non-dyed fuel, there continues to be a need to monitor the specific fuel usage of the equipment using this fuel. Fleet Services Division should assume responsibility for the overall administrative control of dyed fuel and ensure that processes are in place to measure the efficiency of all vehicles and equipment using this fuel.

Fuel Usage – Commercial Fuel Supply

In 2002, the City purchased approximately 2.4 million litres of fuel amounting to \$1.4 million for vehicles obtaining fuel directly from commercial fuel stations. Of this amount, over \$707,000 was for fuel dispensed to approximately 400 vehicles, mostly from Works and Emergency Services Department, through a service card program managed by PHH Vehicle Management Services, an external fleet management company, under a continuing pre-amalgamation agreement with one of the former municipalities. The agreement also covers maintenance management in connection with these vehicles.

The balance of approximately \$708,000 pertains to fuel obtained directly from 11 commercial fuel locations as alternate sources, using commercial credit cards. These sites are used for certain vehicles using natural gas and certain vehicles formerly using a City-operated fuel site that subsequently closed. We have been advised that the latter vehicles, mostly from Parks and Recreation and Solid Waste Management, use the commercial operators as there is no alternate “convenient” City-operated fuel site.

We have reviewed the administration and accounting in relation to fuel dispensed by external commercial organizations and, in our opinion, the controls in place are inadequate to ensure that the City is being billed only for fuel dispensed and used by City vehicles. The current practice provides that the vehicle number be noted on each fuel receipt to facilitate the charge back to the appropriate user department. The fuel usage information by vehicle is compiled manually from the receipts and reconciled to the monthly invoice. However, there are no procedures in place to analyze fuel usage and measure fuel efficiency of these particular vehicles. Consequently, the possibility exists that fuel misappropriation could occur without being detected.

In June 2003, Council adopted the report entitled “Realignment of Fleet Services” from the Commissioner, Corporate Services. The report indicated that the agreement with PHH Vehicle Management Services has been operating on a month to month basis since October 1997. It further added that the services provided through the service card program with PHH Vehicle Management Services could be absorbed within Fleet Services Division.

In addition, the report on the “Realignment of Fleet Services” provided that “City-operated filling stations be used for all fuelling activity except where operational considerations necessitate that alternative arrangements be made.” Fleet Services Division indicated that vehicles using commercial fuel cards are currently being phased in to use City-operated fuel sites as the respective agreements with the commercial vendors expire.

The City, however, is required to continue to use commercial operators for natural gas supply, as the current City-operated fuel sites do not have natural gas supply capacity. In this case, it is essential that contracts with these suppliers be reviewed in order to ensure that the City is provided with the appropriate level of documentation to enable it to appropriately manage its fuel operations.

External Review of City-operated Fuel Sites

Commencing 2002, Fleet Services Division initiated a review of 23 fuel sites managed by the Division by requesting site inspections by the Technical Standards and Safety Authority to identify deficiencies that may require attention. The Authority is responsible for the administration of Ontario's Technical Standards and Safety Act and associated regulations, which cover regulated facilities, including fuel site operations. The inspections are conducted based on the Liquid Fuels Handling Code, which specifies the standards and specifications for the handling of liquid fuels or in the installation, maintenance, repair or removal of liquid fuels handling equipment. It stipulates the responsibility of the holder of the licence for a fuelling facility. For example, the City is responsible for ensuring the safe handling of fuelling equipment, safe storage and maintenance of fuel tanks, and maintenance of records of required inspections.

At the time of this report, 90 per cent of the Authority inspections had been completed. Our review of the inspection reports indicated no significant deficiencies had been identified. Some of the minor deficiencies identified pertained to minor equipment repairs and inadequate signage or documentation. Extending these site inspections to fuel sites not currently managed by Fleet Services Division would ensure that all fuel site operations are in compliance with applicable regulations.

Recommendation:

3. The Commissioner, Corporate Services, in consultation with other City departments who directly manage fuel sites the Toronto Police Service, Emergency Medical Services Division and Fire Services Division, complete a comprehensive assessment of all City-owned fuel sites, with a view to:
 - (a) evaluating existing fuel sites, considering such factors as the age, size, type, volume, utilization, location and condition of the fuel tanks;
 - (b) evaluating the benefits and costs, including environmental concerns/benefits of maintaining the fuel sites;
 - (c) evaluating the benefits and costs of closing and decommissioning the fuel sites;
 - (d) recommending the retention or closure of each fuel site based on the results of the evaluation and cost-benefit analysis and long-term fuel supply strategy including any future use of biodiesel;
 - (e) developing a long-term strategy, including the cost implications and timelines, for the closure and decommissioning of those fuel sites identified for closure, if any, in (d) above;
 - (f) developing a coordinated long-term fuel site use and management strategy for all City-owned fuel sites, including consideration of single accountability for all City-owned fuel sites, and addressing:

- (i) policies and procedures with respect to the administration and operation of all such sites including the training of appropriate staff. The policies and procedures provide for receipt of fuel, daily dipstick readings and reconciliation, and the maintenance of the fuel site facility and equipment;
 - (ii) practices for ensuring daily fuel reconciliations are properly completed, discrepancies where identified are investigated and corrective action taken on a timely basis, and that all such reconciliations be subject to supervisory review and approval with evidence of such review in writing;
 - (iii) a review of the computerized fuel dispensing systems in use, including Profuel, in order to ensure that:
 - (a) controls as originally designed in the system are operating appropriately;
 - (b) reports, which identify unusual fuel consumption transactions, are generated and reviewed by supervisory staff, such transactions investigated and where necessary appropriate action is taken. Evidence of the review and any follow-up action be documented in writing; and
 - (c) reports are generated which track fuel consumption on a vehicle by vehicle basis;
 - (iv) overall management responsibility for all non-computerized (manually operated) fuel sites ensuring all adequate records are maintained and appropriate controls are in place to facilitate control over fuel usage at these sites;
 - (v) controls relating to the supply of fuel for all commercial fuel sites and ensure that fuel usage reports are generated for all vehicles using commercial fuel supply. These reports be reviewed for reasonableness by supervisory staff and appropriate action taken, where necessary. Evidence of such review and any follow-up action be documented in writing;
 - (vi) fuel site inspections by the Provincial Standards and Safety Authority for all City-operated fuel sites in order to ensure compliance with Ontario's Technical Standards and Safety Act; and
- (g) the Commissioner, Corporate Services, report back to the September 2004 meeting of the Administration Committee in connection with the above.

Vehicle Procurement, Utilization And Disposal

Vehicle Procurement

The procurement of vehicles and equipment is a responsibility shared by Fleet Services Division, the user departments and the Purchasing Division of the Finance Department. Fleet Services Division provides the user departments with an initial listing of vehicles and equipment due for

replacement based on age and usage and provides advice on vehicles that need replacement. It also co-ordinates the development of specifications and tenders, evaluation and approval of quotations, preparation of purchase orders, and delivery and receipt of vehicles.

The user departments are responsible for identifying and recommending the vehicles and equipment for replacement based on operational needs and funds availability and co-ordinating the necessary budget approvals. While Fleet Services Division provides input into the process, the user departments make the final recommendation of which vehicles to replace. The Purchasing Division is responsible for the tendering and awarding of contracts in accordance with corporate purchasing policies. Current practice does not require written justification for vehicle and equipment replacement. The possibility exists that vehicles may replace an underutilized vehicle.

The 1999 KPMG LLP Fleet Review Report included a recommendation that the City “conduct a zero-based vehicle and equipment review and dispose of or reassign surplus fleet assets. This review should demonstrate the business case for each vehicle or piece of equipment.” The Implementation Status Update contemplated a three-phase review. The first phase involved a five per cent reduction of the total fleet. The second phase covered Parks and Recreation Division of the Economic Development and Culture Department and the third phase covered Works and Emergency Services and the balance of City departments. The third phase of the review has not yet been completed.

With respect to the selection of specific types of vehicles and equipment required, the operating departments generally provide the specifications and general requirements of the vehicle or equipment, while Fleet Services Division provides advice on the type of vehicle or equipment that meets the requirements. Recognizing the varied requirements of the operating departments and the need to maintain standards in City vehicles and equipment, Fleet Services Division established a Fleet Acquisition and Specifications Support Team in 2002. The Team is comprised of staff from the various stakeholders such as Fleet Maintenance, Purchasing, Human Resources and operating departments. One of the issues identified by the Team was the fact that there were too many vehicle specifications with insignificant differences. The Team has now established standard vehicle specifications to help streamline the vehicle procurement process.

Recommendation:

4. The Commissioner, Corporate Services, in accordance with the directive of Council and in consultation with City departments, establish a policy and procedure requiring that a business case be provided by all departments for all vehicle and equipment acquisitions, including justification for all new or replacement vehicle or equipment, taking into consideration the actual usage and purpose of the vehicle being replaced.

Vehicle Utilization

The operating departments are responsible for the assignment and utilization of their own vehicles and equipment based on operational requirements. Currently, there is no centralized monitoring of vehicle utilization to ensure optimal use of City vehicles. Neither is there any reporting on vehicle utilization rates.

During our review, we conducted an analysis of the utilization of cars and light trucks. Our review of vehicle utilization was for the most part based on vehicle odometer readings.

Odometer readings are recorded through two separate accounting processes. One, in the Profuel System at the time of fuelling, and secondly, in the M4 Maintenance Management System at the time of maintenance or repair service. Our comparison of the odometer readings of both the Profuel System and the M4 System showed differences in the odometer readings for a number of vehicles, which we were unable to reconcile. The M4 System will be subject to further review under Phase Two of our review of Fleet Services Division.

The accuracy of data in the Profuel System relies on operator input and, therefore, could be subject to error. However, the odometer readings are more current in this System as they are recorded more frequently than in the M4 System. Consequently, our analysis included only cars and light trucks that use the Profuel System.

Fleet Services Division has developed a standard vehicle life expectancy for cars and light trucks at eight years or 160,000 kilometres, which is consistent with standards used in other municipalities which we surveyed. Our analysis of total kilometres travelled for cars and light trucks using information from the Profuel System showed that of 580 vehicles in this category, 226 or 39 per cent were driven less than 10,000 kilometres or less than half of the standard expected usage. In addition, 39 of these vehicles were driven less than 5,000 kilometres for the year. An analysis of vehicle utilization relating to cars and light trucks is shown on Appendix 6 of this report.

The Fleet Services Division should specifically provide operating departments with periodic (we suggest every quarter) vehicle utilization reports that would identify underutilized or overutilized vehicles and request departments to provide explanation for vehicles that are used significantly below or above established vehicle life expectancy standards. Such an exercise could identify opportunities for pooling or reassignment of vehicles or, alternatively, reductions to the size of the City's fleet.

In addition, it is possible that certain staff in various departments are using their personal vehicles for business and are appropriately charging kilometrage to the City when under-utilized City vehicles may be available.

Recommendation:

5. The Commissioner, Corporate Services:
 - (a) develop and generate quarterly vehicle usage reports, the purpose of which is to identify vehicles that exhibit usage significantly different than expected;
 - (b) provide vehicle usage reports to operating departments for their review and analysis, requesting explanation for significant variances and suggested corrective action where necessary; and
 - (c) identify opportunities for the pooling of vehicles, where departmental needs do not require full use of the vehicles and request the transfer of such vehicles to the corporate pool for either reassignment or disposal.

Vehicle Disposal

Our review included a comparison between the pre-determined life expectancy standard and information in relation to those vehicles disposed of at auction.

An analysis of light vehicle disposals in 2003 is shown on Appendix 7.

The standard vehicle life expectancy determined by the City is either 160,000 kilometres or eight years. The analysis of the 61 vehicles disposed of in October 2003 indicates that this criterion was met except for five vehicles.

The one issue apparent from the analysis is the number of vehicles (43) with less than 160,000 kilometres on each odometer. Our review determined that three of these vehicles had less than 80,000 kilometres on their odometer. This information would suggest that these vehicles were likely underutilized and potentially could have been reallocated to other Departments or Divisions. We were advised by Fleet Services Division that these three vehicles were in poor working order and required significant maintenance expenses to restore them to operations. While this may well have been the case, there is no documentation on file relating to these potential additional costs.

Current practice requires that a condition assessment of a vehicle be completed prior to disposal. Although a condition assessment form has been designed for this purpose, it is not completed for all vehicle disposals. There is also no documentary evidence to support that the costs of maintaining a vehicle and as to whether the vehicle could be reallocated to another program area are taken into consideration when deciding whether or not to dispose of a vehicle. A business case should be mandatory for each vehicle and equipment replacement and disposal. The business case should provide consideration to all relevant costs of the vehicle or equipment such as the replacement cost, total work orders and estimated future costs of maintaining the vehicle or equipment, particularly if it still has some life expectancy.

Recommendation:

6. The Commissioner, Corporate Services, in consultation with all City departments, establish a policy and procedure requiring that a detailed business case be provided by all departments for all vehicle and equipment disposals. Such business case to provide consideration of all relevant costs including the replacement cost, total work orders and estimated future costs of maintaining the vehicle or equipment, particularly if it still has some life expectancy, as well as the determination of whether the vehicle or equipment could be reallocated to another program area in the City.

Vehicle And Equipment Replacement Reserve

The City has established a Vehicle and Equipment Replacement Reserve to fund the acquisition and replacement of vehicles and equipment for City departments including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division. Other entities such as the Toronto Public Library, Exhibition Place and the Toronto Zoo also participate in the City's Vehicle and Equipment Replacement Reserve. The Reserve's main source of funding is through annual operating budget contributions from the various departments, boards and agencies. Proceeds from the disposal of vehicles are also credited to the Reserve.

Appendix 8 shows the transactions, both revenues and expenditures, of the Vehicle and Equipment Replacement Reserve from 1998 to 2002. The accounting policy for recording Reserve withdrawals was changed in 1999 and again in 2002. From 1999 to 2001, funds budgeted for the replacement of vehicles and equipment were transferred from the Reserve to the capital fund. Commencing 2002, funds were only transferred to the capital fund when the expenditures were actually incurred. The retroactive application of this change resulted in approximately \$28 million being returned to the Vehicle and Replacement Reserve, representing budgeted funds for 1999 to 2002 that had not been spent by the end of 2002. These specific funds had not been spent mainly because of significant delays in the manufacturing and procurement of vehicles.

The balance of the Vehicle and Equipment Reserve was \$48.3 million at the end of 2002. Of this amount, \$46.7 million has already been earmarked in the 2003 capital budget towards previously approved vehicle and equipment replacements. This includes \$23.8 million for 2001 and prior years and \$22.9 million for 2002. Therefore, if all the replacements were made, the Reserve would have a balance of \$1.5 million to fund future replacements.

As part of the capital budget process, Finance Department established budget guidelines for the City's vehicle and equipment replacement program and new acquisitions. The guidelines provided that in the short run until a contribution formula can be established and fully implemented, the gross expenditure threshold for defining Fleet Vehicles and Equipment will be established corporately, with targets allocated by program at the start of the process each year. Once the formula is fully implemented, replacement will be based on the state of repair and availability of accumulated reserve funding.

The proposed operating contribution to the Vehicle and Equipment Replacement Reserve for each program will be based on the following formula:

$$\frac{\text{Replacement Cost} - \text{Contribution to the Reserve to Date} - \text{Salvage Value}}{\text{Remaining Useful Left in Years}}$$

However, due to increasing budget pressures over the years, this formula has not been implemented and contributions to the Reserve have not kept pace with the requirements to fund future replacements. Replacements had been generally funded on a "pay-as-you-go basis".

As at September 2003, the total replacement cost of the City's fleet, excluding fleets of the Toronto Police Service, Emergency Medical Services Division and Fire Services Division, amounted to approximately \$264 million. Based on the current fleet size and expected life expectancy of the vehicles and equipment, we have estimated that the required annual contribution would be \$29.2 million. In 2003, the budgeted contributions to the Reserve for this fleet amounted to \$19.2 million, or a shortfall of \$10 million for City departments alone. Therefore, maintaining the contributions to the Reserve at this level would mean delaying the replacement of vehicles and equipment, which would generally result in an ageing fleet and increased maintenance costs.

The Finance Department is responsible to ensure the adequacy of the reserve. During the 2002 capital budget deliberations, the Policy and Finance Committee recommended that “the Commissioner of Corporate Services and the Chief Financial Officer report back before the 2003 budget process on the long-term strategy for operating contributions to the Vehicle and Equipment Replacement Reserve.” At the time of this report, this has not yet been done.

In October 2000, Council adopted the joint report from the Chief Financial Officer and Treasurer and the Commissioner of Corporate Services which examined the feasibility of leasing the City’s light vehicle fleet requirements as an alternative to purchasing. In the report, it was recommended that the City not enter into a light vehicle fleet lease financing contract at that time. It was further recommended that “the Commissioner of Corporate Services consider light vehicle fleet lease financing when preparing the strategic plan and organizational structure for fleet maintenance management for the Administration Committee by February 2001.” This issue has not been addressed in the Fleet Services Future Plan.

Recommendation:

7. As recommended by the Budget Advisory Committee in February 2002, the Commissioner, Corporate Services, and the Chief Financial Officer and Treasurer report back on the long-term strategy for operating contributions to the Vehicle and Equipment Replacement Reserve and that such strategy also re-visit the lease financing option for vehicle acquisitions, as directed by Council in 2000, and submit such report to the September 2004 meeting of the Administration Committee.

Greening The Fleet Program

The Fleet Services Future Plan approved by Council included Greening the Fleet strategies such as reducing fleet emissions and conserving fuel. Fleet Services Division has undertaken various initiatives to implement these strategies supporting the City’s commitment to improve air quality. The first strategy involved the development and implementation of the Green Fleet Transition Plan to maximize the use of hybrid vehicles and alternative fuels.

In September 2003, Council adopted Fleet Services – Technology Testing Report, which outlined the City’s initiatives implemented to date with respect to the Green Fleet Program. Fleet Services’ staff indicated that the next phase would involve the development of an implementation plan for the next four years.

To achieve the objective of reducing fleet emissions, it is essential that Fleet Services Division is able to track and monitor fuel usage by vehicle in order to measure fuel efficiency. However, as discussed in the fuel management section of this report, the current monitoring procedures for fuel usage are not adequate to provide the required information. Consequently, without adequate documentation, it is difficult or impossible to assess the effectiveness of any fleet emissions reduction program.

Recommendation:

8. The Commissioner, Corporate Services, establish fleet emission and fuel efficiency standards and ensure that these standards are incorporated in the fleet management information system when implementing the recommendations in this report with respect

to the monitoring of City vehicles' fuel usage and utilization. In addition, any significant deviation from these standards be investigated and appropriate corrective action taken where necessary.

Fleet Safety

Fleet Services Division ranked fleet safety and compliance with legislation as the highest priority among its objectives. The Division is responsible for ensuring that the City's fleet operations comply with various federal, provincial and municipal legislation, including the Highway Traffic Act, Transportation of Dangerous Goods Act, Technical Standards and Safety Act and Occupational Health and Safety Act. Non-compliance with the legislation represents a significant risk to the City as any non-compliance could result in fines, impounding of vehicles or equipment, or shutdown of operations.

Under the Highway Traffic Act, the Commercial Vehicle Operators Registration program applies to all owner/operators who are responsible for commercial motor vehicles that use Ontario's roads and highways. All licensed City vehicles with gross vehicle weight of over 4,500 kg, with the exception of emergency response vehicles (i.e., the Toronto Police Service, Emergency Medical Services, and Fire Services) are included in this program. The program defines owner/operator's responsibilities and monitors owner/operator's performance. For example, the City is responsible for ensuring the safe operation of City vehicles and equipment, including providing adequate driver training and vehicle maintenance, monitoring driver performance and accident rates, and maintaining adequate documentation of such procedures.

An incident in 2000 involving a wheel being displaced from a City truck resulted in a safety audit by the Ministry of Transportation in 2001. The City received an "unsatisfactory" rating from the Ministry and was given eight months to correct all the issues identified. Some of the issues identified pertained to inadequate documentation. Fleet Services Division subsequently took the necessary action to address these issues.

Fleet Services Division has enhanced its Fleet Safety Program as required under the Commercial Vehicle Operators Registration Program. The Division established the City's Permit System, which requires that only employees holding a valid City Operator Permit be authorized to operate City vehicles or equipment. The Division develops and provides the required training to City employees authorized to operate City vehicles or equipment and issues a City Operator Permit to the employee after satisfactory completion of the training program.

Fleet Services Division also monitors, on an ongoing basis, drivers' performance through random safety inspections. In addition, the Division performs random checks of drivers' records in the Ministry of Transportation database, under an agreement with the Ministry. The results of the checks and inspections are communicated to the respective departments, so that corrective action can be taken, where necessary.

A subsequent audit from the Ministry of Transportation in 2002 showed a significant improvement in the City's safety ratings. In particular, Fleet Services Divisions' safety and training program improved from the unsatisfactory 37.5 per cent score to being 100 per cent in compliance with Ministry standards.

Other factors considered in the safety rating include driver and vehicle profiles. These pertain to physical inspection of vehicles and review of documentation and records. The compliance rates for driver and vehicle profiles also improved to 90 per cent (from 33.3 per cent) and 73.8 per cent (from 68 per cent) respectively. As a result, the overall rating for the City's fleet operations improved to 83.7 per cent from 50.7 per cent.

One aspect of the safety program, which could be improved, pertains to the monitoring of the hours worked by employees operating City vehicles or equipment. Safety requirements restrict the maximum number of hours an operator can work to safely operate a vehicle or equipment. In order to monitor compliance, Fleet Services' staff manually compiles the employees' number of hours worked from the departments' internal records. This is done monthly and is generally done on a manual basis. Such a process is extremely time consuming and because it is done manually is prone to error. The information relating to hours worked is obviously available on the City's payroll system and such information should be available to Fleet Services' staff.

Fleet Services' staff has indicated that a request to gain access to the payroll system in order to obtain the required information had been denied to them due to privacy issues. However, complete access to the payroll system is not required to obtain details of hours worked. Upon our inquiry, Payroll Division's staff advised that the information could be provided to Fleet Services without granting Fleet Services complete access to the payroll database.

We understand that this matter is now being addressed but has not yet been implemented. We suggest that the Commissioner, Corporate Services, finalise its arrangement with the Payroll Division of the Finance Department in order to electronically access the hours of work for employees operating City vehicles and equipment. Once this is operational, the manual checking of departments' records for such information be discontinued.

Other Issues

As previously indicated, operating departments are responsible for vehicle assignment and utilization. Some departments such as Works and Emergency Services have established formal written vehicle take-home policies for their own vehicles. However, there is no corporate-wide vehicle take-home policy established for the City. Take home vehicles generally should be based on a proven operational need for or use of the vehicle to fulfil work responsibilities. The take-home policy should generally permit take-home vehicle assignments for employees who are frequently required to answer emergency calls during both business and non-business hours or for specific operational purposes.

Recommendation:

9. The Commissioner, Corporate Services, develop and establish a corporate policy and clear criteria for the assignment and use of take home vehicles by all departments. Current assignments be re-evaluated and periodic reviews conducted to ensure that vehicles are appropriately assigned and meet the established criteria.

Reporting Back to Audit Committee

In order to ensure that the issues identified in this report are addressed expeditiously, it is suggested that there be a reporting process back to Audit Committee on the status of implementation of the recommendations contained in this report.

Recommendation:

10. The Commissioner, Corporate Services, report back to the July 2004 meeting of the Audit Committee on the status of implementation of the recommendations contained in this report. Such a status to include specific timelines for implementation.

Conclusions:

We have completed the first of two phases of a review of the City's Fleet Services Division. Phase One of the review, which is the subject of this report, covers fuel management, vehicle procurement, utilization and disposal vehicle replacement reserve, the Greening of the Fleet Program and fleet safety. Phase Two of the review, which will be completed during 2004, covers fleet maintenance, the fleet maintenance management information system, inventory control, and customer service.

Fleet Services Division of Corporate Services Department manages over 4,000 vehicles and equipment of City departments, excluding the Toronto Police Service, Emergency Medical Services Division and Fire Services Division. The division operates on a full cost-recovery basis with corresponding interdepartmental charges in individual departments' budgets. Since amalgamation, the size of the fleet has been reduced by 17 per cent.

After amalgamation in 1998, a review of Fleet Services Division was conducted by KPMG LLP. The review focused on the consolidation of fleet operations of the former municipalities as a result of amalgamation. A Fleet Services Future Plan was adopted in March 2001, which outlined key strategies to address the issues raised in the review. The Future Plan was updated in December 2001 following the appointment of a new Director of Fleet Services Division.

One of the issues identified in the KPMG LLP review was whether or not the City needed to operate its own refuelling sites. The City has not yet addressed this issue. The City currently operates 48 fuel sites for vehicles and equipment of City departments and 46 for vehicles and equipment of the Toronto Police Service, Emergency Medical Services Division and Fire Services Division. Some of the fuel sites are in close proximity to one another and opportunities potentially exist for the closure of certain of these sites. There is a need for the City to develop a long-term strategy with respect to fuel management and the maintenance of its own fuel sites.

Although Fleet Services Division is responsible for maintaining City vehicles and equipment, the operating departments are responsible for their assignment and utilization. There is, however, a lack of monitoring of vehicle utilization and fuel usage. Fleet Services Division should act as a centralized oversight function and provide operating departments with vehicle utilization information to assist in the identification of opportunities to pool reassign or, eliminate under-utilized vehicles.

Fleet Services Division is also responsible for the procurement and disposal of vehicles and equipment for City operations excluding Toronto Police Service, Emergency Medical Services Division and Fire Services Division. Operating departments are responsible for deciding which vehicles and equipment to replace and when to replace them. Current practice does not require written justification for vehicle and equipment replacement and disposals. Business cases should be mandatory for vehicle equipment replacement and disposals.

Fleet Services Division established a Fleet Acquisition and Specifications Support Team to improve the procurement process. One of the issues identified pertains to the large number of vehicle specifications. There is a need to establish standard vehicle specifications throughout the City to facilitate the procurement process and likely reduce maintenance costs.

The operating departments are responsible for providing funding for the replacement of their vehicles and equipment through contributions to a Vehicle and Equipment Replacement Reserve established for this purpose. However, contributions to the Reserve have not kept pace with the requirements to fund future replacements.

A three-phase zero-based review was contemplated as part of the implementation plan of the recommendations of the KPMG LLP fleet review. While the first two phases have been completed, the third phase involving a review of Works and Emergency Services and other departments has not yet been completed.

With respect to fleet safety, Fleet Services Division has placed emphasis on enhancing its Fleet Safety Program since 2001, following an audit from the Ministry of Transportation, which gave the City an “unsatisfactory” rating. This audit was prompted by an incident involving a wheel falling off a City vehicle in 2000. A subsequent audit by the Ministry of Transportation showed a significant improvement in its safety and training program, from 37.5 per cent to 100 per cent. The overall rating for the City, after taking into consideration other factors related to driver and vehicle profiles, improved from 50.7 per cent to 83.7 per cent.

Fleet Services Division has developed Greening the Fleet strategies such as reducing fleet emissions and conserving fuel. The division has undertaken various initiatives to implement these strategies supporting the City’s commitment to improve air quality. However, with inadequate monitoring procedures on fuel usage, it is difficult to assess the effectiveness of initiatives under the harmful emissions reduction program.

Overall, Fleet Services Division has made significant progress in the implementation of the Fleet Services Future Plan. However, certain issues, particularly with respect to fuel management, have not been addressed and certain reports requested by Council, such as long-term strategy on contributions to the Vehicle and Equipment Replacement Reserve, remain outstanding.

The recommendations contained in this report may have applicability to other City organizations which manage their own fleet operations including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division, and as such this report should be forwarded to them for their review, consideration and reporting back to the Audit Committee.

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List of Attachments:

- Appendix 1 Fleet Inventory by Category and Age, September 2003
- Appendix 2 Fleet Inventory by Category and Department, September 2003
- Appendix 3 Fleet Services Division: Summary of Revenue and Expenditures, for the Year Ended December 31
- Appendix 4 Site Location Map: City-operated Fuel Sites for City Vehicles and Equipment (Excluding the Toronto Police Service, Emergency Medical Services Division and Fire Services Division)
- Appendix 5 Site Location Map: City-operated Fuel Sites for City Vehicles and Equipment (Including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division)
- Appendix 6 Analysis of Vehicle Kilometrage for the Year – by Category, for Cars and Light Trucks Using Profuel System, for the Year Ended June 30, 2003
- Appendix 7 Summary of Light Vehicle Disposals, October 2003 (Sedans, Vans, Pick-ups)
- Appendix 8 Vehicle and Equipment Replacement Reserve: Continuity Schedule, Year Ending December 31, 1998 to 2002

Appendix 1

Fleet Inventory by Category and Age
September 2003

Category	Less than 5 years	5 to 8 years	9 to 10 years	11 to 15 years	16 years and over	Total
<u>Cars and Light Trucks</u>						
Pick-up	362	228	113	56	2	761
Van	194	170	63	65	1	493
Sedan	53	39	27	26		145
Station Wagon		13	3	6		22
	609	450	206	153	3	1,421
<u>Other Trucks and Equipment</u>						
Dump Truck	134	126	64	94	13	431
Groundskeeping	114	115	66	60	18	373
Tractor/Trailer	110	65	23	85	55	338
Packer	135	157	15	9	3	319
Loader	61	30	16	38	18	163

Category	Less than 5 years	5 to 8 years	9 to 10 years	11 to 15 years	16 years and over	Total
Heavy Truck	51	37	17	46	9	160
Sweeper/Vacuum	56	43	14	20	5	138
Light Off-road Seasonal	61	44	12	4	7	128
Ice Resurfacing	25	22	9	6		62
Snow Removal	1	3	6	9	27	46
* Other	114	83	56	118	89	460
	862	725	298	489	244	2,618
Total	1,471	1,175	504	642	247	4,039
% of Total	36	29	12	16	6	100

Source: Vehicle Fleet Master Listing (M4 System) – September 3, 2003.

**“Other” includes items such as forestry equipment, lifting equipment and various ancillary attachments.

Appendix 2

Fleet Inventory by Category and Department September 2003

Category	CS	EDCT	WES	UDS	OTHER	TOTAL
<u>Cars and Light Trucks</u>						
Pick-up	38	242	477	2	2	761
Van	91	88	276	1	37	493
Sedan	28	16	54	40	7	145
Station Wagon	4	2	7	3	6	22
	161	348	814	46	52	1,421
<u>Other Trucks and Equipment</u>						
Dump Truck	3	153	274		1	431
Groundskeeping	1	343	28		1	373
Tractor/Trailer	4	171	162		1	338
Packer	7	27	285			319
Loader	1	44	118			163
Heavy Truck	2	39	119			160
Sweeper/Vacuum		16	122			138
Ice Resurfacing		83	45			128
Light off-road Seasonal		62				62
Snow Removal		1	43		2	46
*Other	22	102	328		8	460
	40	1,041	1,524	-	13	2,618
Total	201	1,389	2,338	46	65	4,039
% of Total	5	34	58	1	2	100

Source: Vehicle Fleet Master Listing (M4 System) – September 3, 2003.

**“Other” includes items such as forestry equipment, lifting equipment and various ancillary attachments

Legend:

CS	Corporate Services
EDCT	Economic Development, Culture and Tourism
WES	Works and Emergency Services
UDS	Urban Development Services

Appendix 3

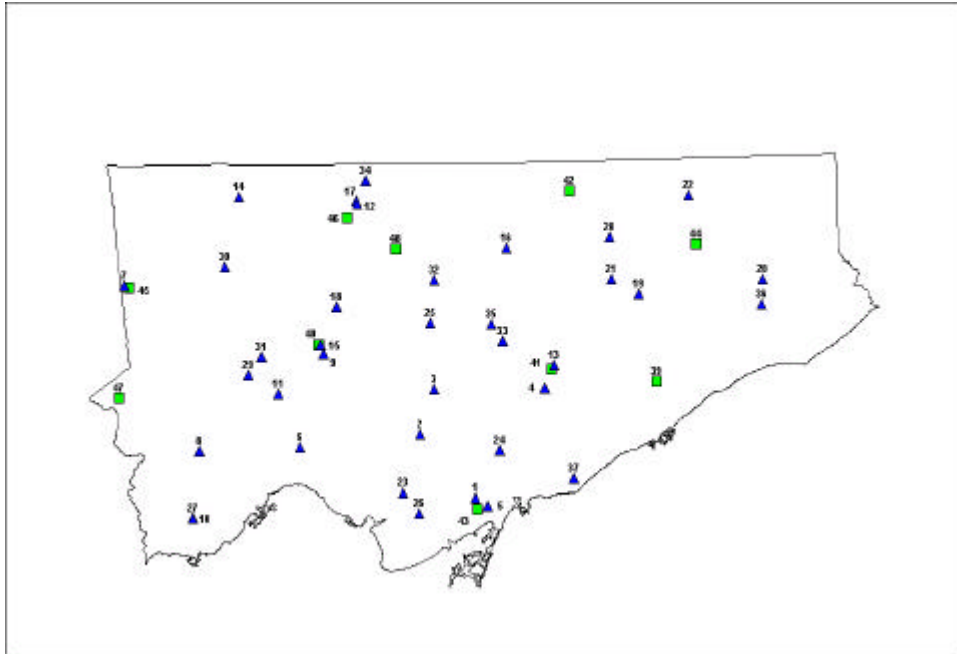
Fleet Services Division
Summary of Revenue and Expenditures
For the Year Ended December 31

	2003 Budget	2002 Budget (\$000)	2002 Actual
Expenditures			
Fleet Maintenance	\$20,783.3	\$21,439.4	\$20,222.2
Fuel Operations	6,719.4	7,220.3	5,367.6
Fleet Safety	961.9	745.0	642.0
Fleet Management	2,832.3	2,890.7	2,806.9
Total Gross Expenditures	31,296.9	32,295.4	29,038.7
Revenue			
Fleet Maintenance	20,783.3	21,439.4	19,028.3
Fuel Operations	6,719.4	7,220.3	5,423.8
Fleet Safety	961.9	745.0	697.6
Fleet Management	2,832.3	2,890.7	2,876.5
Total Revenue	31,296.9	32,295.4	28,026.2
Net Expenditure (Revenue)			
Fleet Maintenance	-	-	1,193.9
Fuel Operations	-	-	(56.2)
Fuel Safety	-	-	(55.6)
Fleet Management	-	-	(69.6)
Net Expenditure	-	-	\$1,012.5

Source: SAP Financial System

Appendix 4

Site Location Map
City-operated Fuel Sites for City Vehicles and Equipment
(Excluding the Toronto Police Service, Emergency Medical Services Division and Fire Services Division)



Legend:

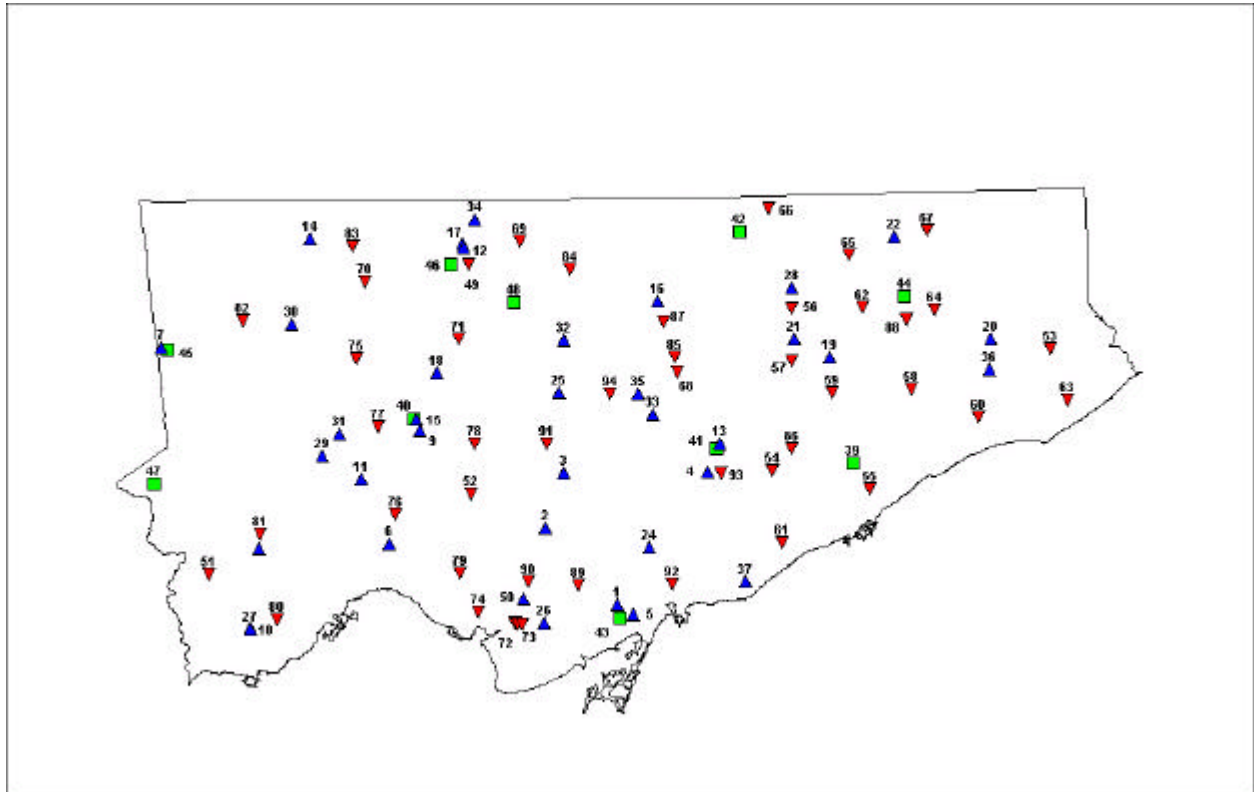
- | | | |
|--------------------------------------|-----------------------------|---------------------------|
| 1 50 Booth Avenue | 14 61 Toryork Road | 27 435 Kipling Ave |
| 2 1008 Yonge Street | 15 86 Ingram Drive | 28 2481 Birchmount Rd. |
| 3 275 Merton Street | 16 2751 Old Leslie Street | 29 235 Edenbridge |
| 4 30 Northline Road | 17 21 Alness Street | 30 11 Armel Court |
| 5 545 Commissioner's Street | 18 140 Bentworth Avenue | 31 101 Emmett Ave |
| 6 1873 Bloor Street West (High Park) | 19 1050 Ellesmere Road | 32 4070 Yonge Street |
| 7 150 Disco Road | 20 891 Morningside Avenue | 33 1132 Leslie Street |
| 8 320 Bering Avenue | 21 101 Ridgetop Road | 34 4801 Dufferin St. |
| 9 1401 Castlefield Ave. | 22 70 Nashdene Road | 35 755 Lawrence Ave. East |
| 10 441 Kipling Avenue | 23 260 Adelaide Street West | 36 360 Morningside Ave. |
| 11 301 Rockcliffe Blvd | 24 153 Chatham Ave. | 37 78 Victoria Park |
| 12 1026 Finch Avenue West | 25 3135 Yonge Street | 38 Keele Valley Landfill |
| 13 25 Old Eglinton Avenue | 26 9 Queens Quay West. | |

For Off-road Diesel only:

- | | | |
|----------------------------|-----------------------------|-------------------------|
| 39 451 Brimley | 43 400 Commissioners Street | 47 149 Elmcrest Rd. |
| 40 50 Ingram Dr. | 44 1 Transfer Place | 48 4169 Bathurst Street |
| 41 188 Bermondsey Rd. | 45 120 Disco Road | |
| 42 3350 Victoria Park Ave. | 46 35 Vanley Cres. | |

Appendix 5

Site Location Map
 City-operated Fuel Sites for City Vehicles and Equipment
 (Including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division)



<u>Reference #</u>	<u>Detail</u>	<u>Fuel Sites</u>
1 – 38	City departments (Profuel System)	38
39 – 48	City – for Off-road Diesel only	10
49	Emergency Medical Services Division	1
50 – 72	Fire Services Division	23
73 – 94	Toronto Police Service	<u>22</u>
	Total	<u>94</u>

Appendix 6

Analysis of Vehicle Kilometrage for the Year – by Category
For Cars and Light Trucks Using Profuel System
for the Year Ended June 30, 2003

Category	Less than 5,000 km	5,000 to 10,000 km	10,001 to 15,000 km	15,001 to 20,000 km	Over 20,000 km	Total
Sedan	10	26	15	2	4	57
Wagon	2	4	4	2	1	13
Van	5	28	21	8	19	81
Pick-up	22	129	153	70	55	429
	39	187	193	82	79	580
% of Total	7	32	33	14	14	100

Source: Profuel System, Odometer readings in June 2002 and June 2003

Analysis of Vehicle Kilometrage for the Year – by Department
For Cars and Light Trucks Using Profuel System
for the Year Ended June 30, 2003

Department	Less than 5,000 km	5,000 to 10,000 km	10,001 to 15,000 km	15,001 to 20,000 km	Over 20,000 km	Total
CNS		1	4	1	9	15
CS	5	31	15	5	3	59
EDCT	16	79	75	10	6	186
Finance		1	2	2	2	7
UDS	2	9	7	1		19
WES	16	66	90	63	59	294
	39	187	193	82	79	580
% of Total	7	32	33	14	14	100

Source: Profuel System, Odometer readings in June 2002 and June 2003

Appendix 7
Summary of Light Vehicle Disposals
October 2003
(Sedans, Vans, Pick-ups)

	Number Vehicles	% Total
Less than eight years old and less than 160,000 km.	5	8
Over eight years old and less than 160,000 km.	43	71
Less than eight years old and over 160,000 km	2	3
Over eight years old and over 160,000 km.	<u>11</u>	<u>18</u>
Total	<u>61</u>	<u>100</u>

Source: City of Toronto Auction Catalogue, October 2003

Appendix 8
Vehicle and Equipment Replacement Reserve
Continuity Schedule
Year Ending December 31, 1998 to 2002

	1998	1999	2000	2001	2002
	(in thousands)				
Balance, beginning of year	\$76,552	\$69,414	\$23,714	\$12,172	\$9,276
Add: Contributions	19,591	16,853	24,944	34,479	26,786
Less: Withdrawals (note a)	(26,729)	(62,553)	(36,486)	(37,375)	(16,162)
Adjustment (note b)					28,427
Balance, end of year	\$69,414	\$23,714	\$12,172	\$9,276	\$48,327

Source: SAP year-end reports and audited financial statements.

Notes:

- (a) Commencing 1999, amounts budgeted for the replacement of vehicle and equipment were transferred from the Vehicle and Equipment Reserve to the Capital Fund of the respective departments, upon budget approval. Actual expenditures were charged directly from the Capital Fund. The 1999 withdrawals included \$14 million in purchases of prior years and \$52 million transferred to the Capital Fund for budgeted replacement of vehicles and equipment.
- (b) In 2002, the accounting policy of recording reserve expenditures was changed back to the accrual method, which is based on actual expenditures rather than budgeted amounts. As a result, a one-time adjustment was made to return the unexpended funds that were transferred from the Vehicle and Equipment Reserve to the Capital Fund in previous years toward vehicle and equipment replacements. Actual expenditures would continue to flow through the Capital Fund with a corresponding contribution from the Vehicle and Equipment Replacement Reserve.

The Audit Committee also submits the report (February 11, 2004) from the Commissioner, Corporate Services:

Purpose

To provide a management response to the Auditor-General's review of fleet operations - phase one.

Financial Implications and Impact Statement:

There will be financial implications from the implementation of the Auditor General's recommendations, particularly regarding the assessment of all 105 City-owned fuel sites. An assessment of the Fleet Services 23 directly managed fuel sites took one staff person one year to complete. The financial implications of the Auditor General's report will be the subject of a report to the Audit Committee in the summer when a status report and work plan for implementation is presented. The extent of future cost savings is not determinable at this time.

Recommendation:

It is recommended that:

- (1) the Commissioner, Corporate Services, report back to the Audit Committee in July 2004 on the status of implementation of the Auditor Generals' recommendations and a formal work plan for implementation, based on the initial management response outlined in this report and in Appendix "A";
- (2) the Fleet Services Steering Committee, facilitated by the Fleet Services Division, be utilized as the inter-departmental and inter-agency co-ordinating mechanism to assist the Commissioner of Corporate Services to respond to and implement the Auditor Generals' recommendations; and

- (3) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

In 2003 the Auditor General initiated a review of fleet operations in two phases. Phase one of the review, which is the subject of the current Auditor General's report, covers the following areas:

- fuel management;
- vehicle procurement, utilization and disposal;
- vehicle and equipment replacement reserve;
- the greening of the fleet program; and
- fleet safety

Phase two of the review of the City's fleet operations, is expected in the second quarter of 2004 and covers the following:

- fleet maintenance;
- the fleet maintenance information system;
- inventory controls; and
- customer service.

This management response report addresses the phase one recommendations.

Comments:

The approved terms of reference for the phase one audit of fleet services was initially assumed to be confined to the responsibilities and mandate of the Fleet Services Division. The Auditor General's review does address Fleet Services, but also identifies issues beyond the division's jurisdiction and extending to other departments and agencies of the City, including the Toronto Police Service, Fire Services, Emergency Medical Services, and other agencies, boards and commissions (ABCs). The review correctly identified that the City's fleet operations extend beyond those assets and responsibilities of the Fleet Services Division.

Implementing many of the recommendations will require co-operation from the departments and ABCs. Fleet Services facilitates inter-departmental and inter-agency co-ordination of mutual fleet matters through the Fleet Services Steering Committee. This group meets on a regular basis to share ideas, address issues and co-ordinate fleet management matters. It is recommended that the Fleet Services Steering Committee, facilitated by the Fleet Services Division, be utilized as the inter-departmental and inter-agency co-ordinating mechanism to assist the Commissioner of Corporate Services to respond to and implement the Auditor General's recommendations.

Appendix "A" lists the Auditor General's 10 recommendations and preliminary management responses from the Fleet Services Division. The following brief discussion addresses the issues raised in the Auditor General's review.

Fleet Operation Responsibilities and Accountabilities

Fleet Services is responsible for selected fleet operations for city departments and ABCs. The following table highlights the division of responsibilities for city-wide fleet services.

Table 1

Responsibility	Accountability				
	City Departments (excl. Fire and EMS)	Emergency Medical Services	Fire Services	Toronto Police Service	Other ABCs
Asset Management	Fleet Services	EMS	Fire Services	Toronto Police Service	-Other ABCs - Procurement program co- ordinated with Fleet Services for Toronto Library, Toronto Zoo, Exhibition Place, and arena boards (proposed).
Fleet Maintenance	Fleet Services	EMS	Fire Services	Toronto Police Service	- Other ABCs - Fleet Services maintains Toronto Library fleet only.
Fuel Services	-Fleet Services directly manages 23 fuel sites. -Departments directly manage another 25 fuel sites.	EMS	Fire Services	Toronto Police Service	Other ABCs
Fleet Safety	Fleet Services	EMS	Fire Services	Toronto Police Service	Other ABCs
Green Fleet Initiatives	Fleet Services with City departments	EMS	Fire Services	Toronto Police Service	Other ABCs
Fleet Usage	City departments	EMS	Fire Services	Toronto Police Service	Other ABCs

Note: Applies to all vehicles and equipment with wheels and axles and having a replacement value exceeding \$5,000.

Fleet Services is directly responsible for only a portion of the city-wide fleet operations. The Auditor General's review indicates there should be greater co-ordination, and perhaps centralization, of some of the City's fleet operations particularly in relation to fuel site management. Implementing the Auditor General's recommendations will require co-operation and co-ordination among all city departments and the necessary ABCs. The Auditor General's recommendation (1) to request these organizations to comment on the issues raised in his report is appropriate.

Reviews of Fleet Operations Since Amalgamation.

In 1998, a review of corporate fleet and garage operations was conducted by KPMG LLP. The review focused on the consolidation of fleet operations of the former municipalities as a result of amalgamation. The scope of KPMG LLP's study excluded the police, fire and ambulance fleet services. City Council adopted the recommendation in principle from the KPMG LLP Fleet Review in 1999. A status report on implementation was presented to City Council in 2000, and the Commissioner of Corporate Services was requested to report on a strategic plan and organization plan for fleet services. In 2001, Council adopted the Fleet Services Future Plan, which outlined five key strategies:

- fiscal performance;
- customer satisfaction;
- safety and compliance;
- greening the fleet, and;
- mobilizing staff.

Since then, Fleet Services has reported to the Administration Committee on a number of issues including garage closures, the implementation of standard labour hours based on industry standards, and green fleet technology testing. An update to the Fleet Services Future Plan was presented to the Administration Committee in November 2001.

In May 2003, the Ministry of Transportation audited Fleet Services for its Commercial Vehicle Operators Registration (CVOR). The City's CVOR rating is now among the best in the Province securing our capacity to operate commercial class vehicles.

The division has developed and implemented a complete re-organization to mobilize and empower staff. Fleet Services was the first division to implement the City's three-way matching process for invoice payments and has established an interface program between its database environment (M4) and the SAP enterprise application to enhance fiscal monitoring and performance.

The Auditor General's recommendation (2) requesting annual updates to the Future Plan is appropriate and the next update will be presented to the Administration Committee in September 2004.

Fuel Management

The Auditor General's review identified 105 city-operated fuel sites. Only 23 of these are directly managed by Fleet Services. The 1999 KPMG LLP Fleet Review Report recommended that the City consider exiting from the fuel business over time but maintain some fuel sites to deal with emergencies and alternative fuels capacity where commercial availability is not extensive. In 2003, the Fleet Services Steering Committee did begin work to address the fuel sites, and some preliminary analysis was completed which pointed to four or five fuel sites for closure. However, given the review initiated by the Auditor General, this work paused pending the results of the review.

The Auditor General's review included a comparison of fuel sites to fleet inventory for Toronto (1:83 ratio) and Baltimore (1:260 ratio). It is not clear if analysis considered factors such as the number of commercial fuel sites utilized, fuel site tank capacities, number of pumps per tank, and type of fuel dispensed. To illustrate different fuelling models, the City of Ottawa has 21 municipal sites supplemented by an additional 18 commercial sites to service 3,100 vehicles resulting in a ratio of 1:79.

There are four basic issues pertaining to fuel sites, which must be addressed in any comprehensive assessment. First, a decision is required as to whether the City should remain in the fuel business or not. There are a number of good reasons for the City to stay in the fuel business, including management control over a critical resource during times of emergency, securing competitive prices, and providing the flexibility to address strategic environmental objectives. Subject to a decision on responsibility for fuel provision, a second consideration is to examine which fuel sites should be consolidated, closed, sequencing of such closures and cost of decommissioning existing tanks. A third consideration would be transitioning to commercial fuel cards including contract management and financial controls, as appropriate. Finally, for any remaining fuel sites within the City's control, a consistent management framework of responsibilities and accountabilities, including training, needs to be determined. The assessment must be based on a solid foundation of information for each fleets' management and use of fuel sites. Fleet Services only has information for its 23 directly controlled fuel sites.

The Auditor General's review suggests there should be single accountability for the City's fuel sites. For example, transferring responsibility for all city-owned fuel sites to Fleet Services would increase its responsibility by over 300%. At this time, it is premature to assign single accountability until all relevant information is compiled for all fuel sites and the comprehensive assessment is complete.

The Fleet Services Steering Committee is the logical mechanism to address this review of fuel sites. The committee, co-ordinated through Corporate Services, can undertake a logical assessment of fuel sites to determine city-wide need, future use and accountability.

Undertaking this review of all fuel sites will require resources. Fleet Services recent review of its 23 fuel sites required one staff person approximately one year to complete. It is estimated that the work required to address the Auditor General's recommendation (3) would not be completed or reported until the second quarter of 2005. A more complete work plan and resource requirement estimate for the assessment of all city fuel sites will be included in the July 2004 status report from the Commissioner of Corporate Services.

Vehicle Procurement, Utilization and Disposal

Fleet Services works with the departments and the Purchasing Division of Finance to procure and dispose of vehicles. For procurement, the Fleet Acquisition and Specifications Support Team (FASST) has been effective in standardizing vehicle specifications to help streamline the vehicle procurement process. The program has increased the division's ability to accelerate vehicle orders with manufacturers and actioned approved budgets from 63% in 2002 to 80% in 2003.

The existing vehicle replacement criteria was established prior to amalgamation and will be reviewed. The City's fleet has been reduced by 17% since amalgamation, exceeding Council's direction to reduce the fleet by 5%. One consequence, however, is fewer "spare" vehicles to accommodate increased downtime due to higher unscheduled repairs from an ageing fleet. Where feasible, Fleet Services will delay the disposal of a specialized piece of equipment to accommodate pooling opportunities and increased downtime from similar vehicles. For example, ice resurfacing machines that can "limp" through another winter will be withheld from the fall auction and disposed of during the spring auction, although they continue to pressure the maintenance budget.

In 2003, Fleet Services implemented the condition assessment report to review vehicles prior to disposal. Fleet Services will work with the Fleet Services Steering Committee to develop business case templates and procedures for all vehicle acquisitions and disposals, as per the Auditor General's recommendations (4) and (6).

Fleet Services has little jurisdiction over vehicle assignment and usage by departments. The departments manage the use of their fleet inventory based on operational requirements. Fleet Services will begin to provide to departments quarterly usage reports (based on vehicle odometer readings) when vehicles are in the garage for maintenance. Departments can use this information for their respective fleet management purposes.

The Auditor General's report draws a conclusion that a number of vehicles were under-utilized due to the low annual distance travelled and were disposed of prior to their full life expectancy. Of the five vehicles identified in the Auditor General's report (Appendix 7), four of these vehicles were operated at the Keele Valley landfill site. Operating equipment in this environment significantly reduces the expected operational life of a vehicle and there is little opportunity to redeploy this equipment. The fifth vehicle required an engine replacement and was deemed to be beyond economical repair.

Establishing appropriate criteria for assessing proper vehicle utilization rates needs to include various factors besides annual odometer readings (i.e., less than 5,000 km.). Departments may have legitimate business reasons for operating vehicles with low mileage, including such factors as location of operation, operational environment, application or specialized use.

The Auditor General identified the absence of a city-wide vehicle take home policy as an issue to be addressed. Fleet Services will work with departments through the Fleet Services Steering Committee to identify the requirements for such a policy. While it may not be practical for one city-wide policy to be established because of the various operational requirements for vehicles by departments, it is appropriate to identify the types of considerations, which must be addressed in any department specific policy (i.e., treatment for taxable benefits, required approvals, business justification, etc.). An update on the take home policy(ies) for City departments will be presented during the July 2004 status report. The Auditor General's recommendation (9) will be addressed through co-ordination with the Fleet Service Steering Committee.

Vehicle and Equipment Replacement Reserve

There is a growing gap between the city's vehicle needs and its affordability based on the City's established vehicle replacement program. The current financing strategy for vehicle acquisitions is a "pay as you go" approach with departments only acquiring new vehicles if sufficient funds have been budgeted. Table 2 shows the growing gap between the City's vehicle needs and current replacement funding as part of the 2004-2006 vehicle replacement program.

Table 2

Year	Prior Year Unfunded Vehicle Need	New Vehicle Need	Total Vehicle Need	Vehicle Replacement Funding	Vehicle Replacement Underfunding
2004	\$44,769,700	\$21,967,900	\$66,737,600	\$17,718,700	\$49,018,900
2005	\$49,018,900	\$23,365,400	\$72,384,300	\$16,012,000	\$56,372,300
2006	\$56,461,300	\$25,119,300	\$81,580,600	\$17,646,000	\$63,934,600

Note: 2004-2006 vehicle replacement program excludes Toronto Police Service, EMS, Fire Services, and other ABCs.

The gap between the City's vehicle needs compared with its affordability is expected to increase by almost \$15 million from 2004 to 2006. Maintaining contributions to the vehicle reserve at current levels will mean delaying the replacement of vehicles and equipment, which will contribute to a further ageing of the fleet and increased maintenance costs. The Auditor General's recommendation (7), requesting a joint report from the CFO and Commissioner, Corporate Services, is appropriate.

In 2000, city staff undertook an analysis on the feasibility of leasing all or a portion of the City's fleet requirements as an alternative to purchasing. A request for proposals (RFP) was issued for leasing light duty vehicles. However, a subsequent staff report recommended that the City not enter into a light duty fleet lease financing contract, but consider lease financing when the Fleet Services strategic plan is prepared (i.e., Fleet Future Plan). City Council referred this report back to the CFO for a report comparing lease costs with external borrowing and that the RFP deadline be extended. A follow-up staff report was not prepared.

Greening the Fleet Program

Fleet Services is a municipal leader in green fleet initiatives. This is one of the cornerstones of the Fleet Future Plan, and a number of initiatives have been undertaken. Fleet Services has conducted one of the largest pilot projects in North America for testing bio-diesel fuel. A green fleet technology testing report was presented to Council in September 2003. A Green Fleet Transition Plan is currently in development for presentation to the Administration Committee in April 2004. This proposed plan will identify vehicle technology, alternative fuels, and vehicle use initiatives to reduce the overall environmental impact of the City's fleet. Fleet Services has modified its M4 database system to record data from regulated emissions testing.

Fleet Safety

Fleet Services is proud of its fleet safety record and improvement in the City’s safety ratings to be 100% compliant with Ministry standards. Fleet Services will be working with the Finance Department to obtain appropriate information to monitor operator working hours to improve fleet safety practices.

Conclusions:

Fleet Services has made significant progress since amalgamation to consolidate, co-ordinate and establish new vehicle and environmental standards that also ensure the highest level of public safety. City fleet operations extend beyond the Fleet Services Division to include responsibilities and mandates within other departments, Fire Services, EMS, the Toronto Police Service and other ABCs. Through the assistance of the Fleet Services Steering Committee, the division will work co-operatively with departments and ABCs to address the recommendations contained in the Auditor General’s report. The first status report and implementation work plan will be reported to the July 2004 Audit Committee.

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 Corporate Services
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 E-Mail: cchiara@toronto.ca

Appendix “A”
 Management Responses to Auditor General’s Fleet Operations Review – Phase One.

Auditor General’s Recommendations	Management Response
<p>(1) City Council direct that this report be forwarded to those City organizations who separately manage their own fleet operations including the Toronto Police Service, Emergency Medical Services Division and Fire Services Division in order to ensure that the issues raised in this report are addressed by them where appropriate. These organizations be required to report back to the October 2004 meeting of the Audit Committee, in connection with the results of their review, specifically addressing:</p>	<p>Management is in agreement with this recommendation.</p> <p>Fleet Services has no involvement in the use and management of fuel sites operated directly by the Toronto Police Service, Emergency Medical Services (EMS) and Fire Services.</p>

Auditor General's Recommendations	Management Response
<p>(a) fuel site use and management, including:</p> <ul style="list-style-type: none"> (i) daily fuel reconciliation procedures and administration; and (ii) compliance with Ontario's Technical Standards and Safety Act fuel site inspections by the Technical Standards and Safety Authority; <p>(b) vehicle procurement, utilization and disposal activities;</p> <p>(c) fleet safety activities; and</p> <p>(d) initiatives to minimize the environmental impact of respective fleets;</p>	
<p>(2) the Commissioner, Corporate Services, report annually on the status of initiatives undertaken as outlined in the Fleet Services Future Plan, including timelines and expected completion dates. The report should also include the status of the action plans previously approved by Council but not included in the Future Plan. The first such report to be forwarded to the September 2004 meeting of the Administration Committee;</p>	<p>Agreed.</p> <p>The last update was provided in November 2001. Fleet Services will provide an annual status report on the Fleet Services Future Plan in September 2004 to the Administration Committee.</p>
<p>(3) the Commissioner, Corporate Services, in consultation with other City departments who directly manage fuel sites, the Toronto Police Service, Emergency Medical Services Division and Fire Services Division, complete a comprehensive assessment of all City-owned fuel sites, with a view to:</p> <ul style="list-style-type: none"> (a) evaluating existing fuel sites, considering such factors as the age, 	<p>Agreed.</p> <p>In 2003, Fleet Services completed an in-depth review and analysis of the 23 fuel sites directly managed by the division to ensure full compliance with the Technical Standards and Safety Act (TSSA) requirements. All 23 sites are in full compliance with regulatory requirements and all records and documentation are in order.</p>

Auditor General's Recommendations	Management Response
<p>size, type, volume, utilization, location and condition of the fuel tanks;</p> <p>(b) evaluating the benefits and costs, including environmental concerns/benefits of maintaining the fuel sites;</p> <p>(c) evaluating the benefits and costs of closing and decommissioning the fuel sites;</p> <p>(d) recommending the retention or closure of each fuel site based on the results of the evaluation and cost-benefit analysis and long-term fuel supply strategy including any future use of alternative fuels such as biodiesel;</p> <p>(e) developing a long-term strategy, including the cost implications and timelines, for the closure and decommissioning of those fuel sites identified for closure, if any, in (d) above;</p> <p>(f) developing a coordinated long-term fuel site use and management strategy for all city-owned fuel sites, including consideration of single accountability for all city-owned fuel sites, and addressing:</p> <p>(i) policies and procedures with respect to the administration and operation of all such sites including the training of appropriate staff. The policies and procedures provide for receipt of fuel, daily dipstick readings and reconciliation, and the maintenance of the fuel site facility and equipment;</p> <p>(ii) practices for ensuring daily fuel reconciliations are properly completed, discrepancies where</p>	<p>Further review and analysis of the other 82 fuel sites across the city, not managed by Fleet Services, will require resources to complete. The July 2004 status report will identify a work plan and resource estimate to implement this recommendation. Subject to resource commitments, the results of this review and recommendations are not expected until the second quarter of 2005.</p> <p>The work involved to address this recommendation will require information compilation from all city-wide fuel site operators. Fleet Services will utilize the Fleet Services Steering Committee as the means to co-ordinate inter-departmental and inter-agency co-operation to:</p> <p>(i) determine if the City should remain in the fuel business,</p> <p>(ii) recommend specific fuel sites closures (if applicable),</p> <p>(iii) transition to commercial fuel cards (as appropriate), and</p> <p>(iv) establish a preferred fuel site use and management framework for all fuel sites maintained by the City.</p> <p>Such work will consider operational and regulatory requirements, overall accountability, green fleet initiatives including the use of bio-diesel, emergency preparedness and condition assessments of existing tanks to identify and mitigate risk exposure.</p>

Auditor General's Recommendations	Management Response
<p>identified are investigated and corrective action taken on a timely basis, and that all such reconciliations be subject to supervisory review and approval with evidence of such review in writing;</p> <p>(iii) a review of the computerized fuel dispensing systems in use, including Profuel, in order to ensure that:</p> <p>(a) controls as originally designed in the system are operating appropriately;</p> <p>(b) reports, which identify unusual fuel consumption transactions, are generated and reviewed by supervisory staff, such transactions investigated and where necessary appropriate action is taken. Evidence of the review and any follow-up action be documented in writing; and</p> <p>(c) reports are generated which track fuel consumption on a vehicle by vehicle basis;</p> <p>(iv) overall management responsibility for all non-computerized (manually operated) fuel sites ensuring all adequate records are maintained and appropriate controls are in place to facilitate control over fuel usage at these sites;</p> <p>(v) controls relating to the supply of fuel for all commercial fuel sites and ensure that fuel usage reports are generated for all vehicles</p>	<p>The computerized fuel system requires manual entry of odometer reading by the vehicle operator in order to dispense fuel. Each vehicle in the fleet is assigned a fuel card however a number of vehicles have attachments or trailer equipment to perform daily duties. This includes such small engine equipment as lawn mowers, chain saws, trimmers, and larger equipment such as gas powered generators and street flushers that are not assigned fuel cards. As such fuel cards assigned to the vehicle are also used to fuel equipment as outlined above. Fleet Services is currently reviewing what controls are available or can be developed that will meet operational requirements and provide enhanced controls. Fleet Services is currently developing exception reporting that will identify any vehicle that exceeds it's per transaction fuel capacity.</p> <p>Fleet Services has taken action to eliminate the limited number of commercial cards in use, where operationally feasible. However, there are unavoidable exceptions</p>

Auditor General's Recommendations	Management Response
<p>using commercial fuel supply. These reports be reviewed for reasonableness by supervisory staff and appropriate action taken, where necessary. Evidence of such review and any follow-up action be documented in writing; and</p> <p>(vi) fuel site inspections by the Technical Standards and Safety Authority for all City-operated fuel sites in order to ensure compliance with Ontario's Technical Standards and Safety Act;</p> <p>(g) The Commissioner, Corporate Services, report back to the September 2004 meeting of the Administration Committee in connection with the above;</p>	<p>to accommodate the procurement of natural gas, which is not available at City fuel sites or locations where a City fuel site is not accessible.</p>
<p>(4) the Commissioner, Corporate Services, in accordance with the directive of Council and in consultation with City departments, establish a policy and procedure requiring that a business case be provided by all departments for all vehicle and equipment acquisitions, including justification for all new or replacement vehicle or equipment, taking into consideration the actual usage and purpose of the vehicle being replaced;</p>	<p>Agreed.</p> <p>Existing procedures require a business case for any new vehicle or equipment without an identified replacement vehicle in the replacement program. Fleet Service will develop a business case template and procedure for use by departments for all vehicle acquisitions (new or replacement) by September 2004.</p>
<p>(5) the Commissioner, Corporate Services:</p> <p>(a) develop and generate quarterly vehicle usage reports, the purpose of which is to identify vehicles that exhibit usage significantly different than expected;</p> <p>(b) provide vehicle usage reports to operating departments for their review and analysis, requesting explanation for</p>	<p>Agreed.</p> <p>Fleet Services will begin preparing quarterly vehicle usage reports for distribution to and use by departments by September 2004. Corporate Services will work with departments through the Fleet Services Steering Committee to identify ways for departments to determine vehicle-pooling opportunities.</p>

Auditor General's Recommendations	Management Response
<p>significant variances and suggested corrective action where necessary; and</p> <p>(c) identify opportunities for the pooling of vehicles, where departmental needs do not require full use of the vehicles and request the transfer of such vehicles to the corporate pool for either reassignment or disposal;</p>	
<p>(6) the Commissioner, Corporate Services, in consultation with all City departments, establish a policy and procedure requiring that a detailed business case be provided by all departments for all vehicle and equipment disposals. Such business case to provide consideration of all relevant costs including the replacement cost, total work orders and estimated future costs of maintaining the vehicle or equipment, particularly if it still has some life expectancy, as well as the determination of whether the vehicle or equipment could be reallocated to another program area in the City;</p>	<p>Agreed.</p> <p>Fleet Service will develop a business case template and procedure for use by departments for all vehicle disposals by September 2004, including the completion of appropriate condition assessments prior to the disposal of vehicles and equipment.</p> <p>Fleet Services implemented the condition assessment program in 2003 to evaluate vehicles and equipment prior to disposal to identify any opportunity for redeployment. This program will be fully implemented in 2004 and every vehicle and piece of equipment identified for disposal will have a condition assessment completed.</p>
<p>(7) as recommended by the Budget Advisory Committee in February 2002, the Commissioner, Corporate Services, and the Chief Financial Officer and Treasurer report back on the long-term strategy for operating contributions to the Vehicle and Equipment Replacement Reserve and that such strategy also re-visit the lease financing option for vehicle acquisitions, as directed by Council in 2000, and submit such report to the September 2004 meeting of the Administration Committee;</p>	<p>Agreed.</p> <p>The vehicle and equipment replacement reserve has been depleted significantly since amalgamation. At present there is limited funding available that is not directly assigned to specific vehicles overdue for replacement. Current financing is based on a "pay as you go" approach by departments.</p> <p>An analysis of lease financing for light duty vehicles (e.g., pick-up trucks) was conducted by city staff in 2000, and a request for proposals (RFP) was issued. Subsequently, staff recommended against</p>

Auditor General's Recommendations	Management Response
	<p>lease financing or contracting with any proponents from the RFP. The staff analysis concluded that lease financing was not a cost effective option to owning due in part to un-competitive financing rates when compared to the City rate of borrowing and additional fees including end of lease penalties and lease administration fees. However, City Council referred the matter back to the CFO.</p>
<p>(8) the Commissioner, Corporate Services, establish fleet emission and fuel efficiency standards and ensure that these standards are incorporated in the fleet management information system when implementing the recommendations in this report with respect to the monitoring of City vehicles' fuel usage and utilization. In addition, any significant deviation from these standards be investigated and appropriate corrective action taken where necessary;</p>	<p>Agreed.</p> <p>Fleet Services has modified the corporate M4 database system to record provincial emission testing results for HC, Nox and CO. Equivalent carbon dioxide (CO2) emissions are not part of the emissions testing program, but equivalent emission loads will be estimated based on vehicle fuel consumption.</p>
<p>(9) the Commissioner, Corporate Services, develop and establish a corporate policy and clear criteria for the assignment and use of take home vehicles by all departments. Current assignments be re-evaluated and periodic reviews conducted to ensure that vehicles are appropriately assigned and meet the established criteria; and</p>	<p>Establishing a city-wide policy may not be practical from an operational perspective, as departments have established different business requirements for vehicle usage. Corporate Services will work with the Fleet Services Steering Committee to establish a corporate approach to departmental take home policies, ensuring that certain factors are addressed (i.e., taxable benefits application, required approvals, business justification, etc.).</p>
<p>(10) the Commissioner, Corporate Services, report back to the July 2004 meeting of the Audit Committee on the status of implementation of the recommendations contained in this report. Such a status to include specific timelines for implementation.</p>	<p>Agreed.</p> <p>A status report and work plan for implementation will be prepared for the July 2004 Audit Committee.</p>

(City Council on March 1, 2 and 3, 2004, had before it, during consideration of the foregoing Clause, the following report (February 27, 2004) from the Auditor General:

Purpose:

To respond to the Audit Committee's request for additional information in connection with the Auditor General's report entitled "Fleet Operations Review - Phase 1", dated November 18, 2003. The additional information requested related to the rental of vehicles by the City.

Financial Implications and Impact Statement:

There are no financial implications resulting from the receipt of this report.

Recommendation:

It is recommended that this report be received for information.

Background:

On February 24, 2004, the Audit Committee adopted the Auditor General's report entitled "Fleet Operations Review – Phase One" and further requested that the Auditor General, in consultation with the Chief Financial Officer and Treasurer, report directly to Council on the number of vehicles rented by the City and their annual mileage, on a year-by-year basis, since amalgamation.

Comments:

The costs relating to vehicle rentals are charged directly to individual departments under a vehicle rental account in the general ledger. Accordingly, information relating to the costs of vehicle rentals was extracted from the SAP financial information system. Information relating to 1998 and 1999 is not available in the SAP financial information system, but was maintained in several financial information systems of the previous amalgamating municipalities and, as a result, this information is not readily available.

The following is a summary of the costs relating to rental vehicles for the years 2000 to 2003.

<u><i>Year</i></u>	<u><i>Amount</i></u>
2000	\$1,286,300
2001	1,474,100
2002	1,542,900
2003	1,807,500

While we have confirmed that these amounts represent the total costs recorded in the SAP system under the vehicle rental account, we have not audited these amounts. It should also be noted that vehicle rentals are initiated by individual departments and the utilization of these vehicles is the responsibility of each program area.

In view of time constraints, particularly as this report was required for the Council meeting commencing March 1, 2004, we have not been able to accumulate information relating to the specific number of vehicles and mileage information for these vehicles. The Auditor General is in the process of conducting a second phase to his review of Fleet Operations. In this context, it is suggested that this review include further information relating to the request of Audit Committee.

Conclusions:

This report provides the total costs of rental vehicles for the years 2000 to 2003. In view of time constraints, additional information in relation to these vehicles is not yet available. This information will be provided in the Auditor General's Fleet Operations – Phase 2 report.

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