

TORONTO STAFF REPORT

April 11, 2005

To: Audit Committee
From: Auditor General
Subject: Fleet Operations Review – Phase Two

Purpose:

This report presents the results of Phase Two of a two-part review of the City's fleet operations conducted as part of the Auditor General's 2004 Annual Work Plan. The Phase One report was tabled at the February 2004 Audit Committee meeting.

This report also responds to three other fleet-related referrals as follows:

- A. Audit Committee's request in February 2004 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." An initial response to this request in a report dated February 27, 2004 was forwarded to City Council at its meeting of April 15 and 16, 2004, indicating that further information would be provided in the Phase Two report;
- B. Council's request in April 2004 that "the Auditor General be requested to submit a further report to the Audit Committee providing further information regarding the lease cost continuing to escalate at the same time as the funding for the vehicle replacement program has been increased substantially" and
- C. Council's request in December 2003 for "the Auditor General to perform a detailed review of both the previous tender process and the administration of the awarding of the tender, including financial details and testing details."

Financial Implications and Impact Statement:

The implementation of certain recommendations in this report will improve management controls over fleet operations and result in efficiencies and potential cost savings. However, addressing certain recommendations, particularly with respect to centralization of fleet-related functions, would require additional ongoing resources for Fleet Services. Some of these costs

may be accommodated through re-allocation of existing resources designated to fleet-related functions in other departments. Future costs and cost savings are not determinable at this time, but will be determined when staff identify the specific action required to implement recommendations contained in this report.

Recommendations:

It is recommended that:

- (1) the recommendations in the attached Auditor General's report entitled "Fleet Operations Review – Phase Two" be adopted; and
- (2) the Deputy City Manager and Chief Financial Officer be requested to report to the Audit Committee by October 2005 on the implementation of the recommendations in the Auditor General's report entitled "Fleet Operations Review – Phase Two".

Background:

The review of the City's fleet operations was conducted in two phases as part of the Auditor General's Annual Work Plan. The Phase One report, which was tabled at the February 2004 Audit Committee meeting, covered 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, which is the subject of this report, covers the following areas:

- control of fleet equipment;
- repairs and maintenance;
- fleet management information system;
- parts procurement and inventory;
- rental vehicles; and
- other related issues.

Comments:

The attached Auditor General's report entitled "Fleet Operations Review – Phase Two" contains 26 recommendations. Management's response to each of the recommendations contained in this report is provided in a separate report from the Chief Corporate Officer, which is submitted concurrently with this report.

Conclusions:

This report covers the second phase of our two-phase review of fleet operations. Our review identified a number of areas requiring improvement in fleet operations, some of which have been addressed or are in the process of being addressed.

One of the central issues identified in this report pertains to the lack of centralized ownership, control and accountability of City fleet and the need to integrate all fleet-related functions. Other issues pertain to specific fleet-related functions that require further strengthening.

Addressing the recommendations in this report would improve management controls, provide for more efficient use of resources and enhance the effectiveness of fleet operations.

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Auditor General

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List of Attachments:

Fleet Operations Review – Phase Two

Fleet Operations Review – Phase Two

April, 2005

 **TORONTO** Auditor General

Fleet Operations Review – Phase Two

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April, 2005

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EXECUTIVE SUMMARY

The Auditor General's 2004 Annual Work Plan included a review of fleet operations. Given the significant extent of the City's fleet operations, the review was divided into two phases. The Phase One report, which was tabled at the February 2004 Audit Committee meeting, resulted in 14 recommendations related to:

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

These recommendations are included as Appendix 1 to this report ("Fleet Operations Review – Phase One Summary of Recommendations").

In response to the Phase One report, the then Commissioner of Corporate Services reported to the Audit Committee in June 2004, on the status and projected timelines related to the implementation of the recommendations contained in that report. A subsequent management report (Status Update #2) dated March 14, 2005, was submitted to the Audit Committee at its meeting of April 5, 2005, and is included as Appendix 2 to this report ("Fleet Operations Review – Phase One Management Response and Status Update #2 – March 2005").

This report outlines the results of Phase Two of our two-part review of City fleet operations, conducted as part of the Auditor General's 2004 Annual Work Plan. This report also responds to the Audit Committee's request in February 2004, 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." In response to this request, a report dated February 27, 2004 was forwarded to City Council at its meeting of April 15 and 16, 2004, indicating that further information would be provided in the Phase Two report.

This report also responds to Council's request in April 2004 that “the Auditor General be requested to submit a further report to the Audit Committee providing further information regarding the lease cost continuing to escalate at the same time as the funding for the vehicle replacement program has been increased substantially.”

This report also addresses Council's request in December 2003 for “the Auditor General to perform a detailed review of both the previous tender process and the administration of the awarding of the tender, including financial details and testing details.”

This report sets forth issues and recommendations at several levels. The first section briefly describes organizational best practices among North American Fleet Service organizations, which we believe provide a consistent, reliable and cost-effective framework for providing fleet services. The next section provides a commentary on the City's current Corporate governance model and its effect on fleet services' efficiency and effectiveness. The remainder of the report identifies specific issues and recommendations for further strengthening the City's fleet service operation.

This report also covers issues related to areas covered in our Phase One report, such as vehicle procurement, utilization and disposal, and the Vehicle and Equipment Replacement Reserve, which are relevant to this review. Areas covered in both phases have to be viewed as part of the whole fleet operation to appreciate the recommendations included in this report, particularly with respect to Corporate governance restructuring.

A number of issues raised in this report reflect continuing pre-amalgamation practices. One major recommendation included in this report pertains to considering the feasibility of restructuring the current decentralized Corporate governance model of fleet operations into a centralized control model within Fleet Services. This organizational restructuring involves a major shift in the ownership, control and accountability of City fleet from user departments to Fleet Services. The recommended organizational restructuring should not result in significant change to the operational use of equipment. In addition, consultations between Fleet Services and user departments continue.

It is also anticipated that organizational restructuring may involve reallocation of existing resources assigned to fleet-related functions within City departments.

The issues raised in this report can be summarized as follows:

A. Fleet Ownership, Control and Accountability

- While the procurement, licensing and safety of City fleet are centralized, ownership, control and accountability of the fleet are not. Decision-making authority on fleet-related matters rests with user departments, which own and control the fleet. The decentralized control model is inefficient and not cost-effective. There is a need to evaluate the current Corporate governance model to provide a focused, structured and systematic approach to Corporate-wide fleet services.
- Issues adversely affected by the decentralized control model include:
 - maintenance and repair decisions;
 - compliance with preventive maintenance schedules;
 - fleet assignment and utilization decisions;
 - equipment replacement and funding decisions;
 - fleet acquisition decisions; and
 - control of overall fleet costs.

B. Rental Vehicles and Equipment

- Control of rental vehicles is not centralized. Rental vehicles are managed by user departments without involvement of Fleet Services except the issuance of fuel cards. Decentralized control of rental vehicles is inefficient and not cost-effective. The management and funding of rental vehicles should be centralized and integrated with the City-owned fleet, as part of the total fleet management structure.

C. City Garage Operations

- Fleet Services operates 13 maintenance garages, a reduction of five garages since amalgamation. Although four additional garages have been identified for closure since 2001, the closure of these garages has not yet been implemented pending completion of a Yards Rationalization Study. This study is currently being undertaken by the Facilities and Real Estate Division. Completion of the Yards Rationalization Study should be expedited and the need to maintain garages evaluated with due consideration to the level of service provided by the garages and extent of use of private repair shops.

- Other issues related to garage operations include:
 - understatement of standard hourly labour rates;
 - limited performance criteria and measures to assess efficiency of garage operations; and
 - need to strengthen controls over shop tools and equipment.

D. Use of Private Repair Shops

- Fleet Services uses private repair shops to provide specific services under contract and general repair services that could not be accommodated at a City garage on a timely basis. The following issues related to private repair shops should be addressed:
 - use of vendors without a contract for repetitive work;
 - splitting of departmental purchase orders contrary to purchasing policies;
 - need to strengthen controls to ensure that payments are made for work actually performed;
 - lack of criteria and documentation for conducting random inspections of work performed by private repair shops; and
 - need to monitor periodic referrals of service such as emission testing.

E. Warranty Repairs

- Fleet Services performs minor warranty repairs at staff discretion. The following issues relate to warranty repairs:
 - lack of tracking warranty information in the M4 System;
 - lack of criteria for determining whether warranty repairs should be performed by Fleet Services or referred to the manufacturer;
 - need to formalize arrangements with manufacturers allowing Fleet Services to perform minor warranty repairs; and
 - labour costs for warranty repairs performed by Fleet Services not fully recovered from the manufacturer.

F. M4 Fleet Management Information System

- Fleet Services uses the M4 Fleet Management Information System (M4 System) for tracking fleet information. The following issues relate to the use of the M4 System:
 - unreliability of odometer or hour meter readings;
 - posting of manual adjustments is prone to error;
 - certain system features, such as the warranty module, are not fully utilized; and
 - periodic management exception reports are not generated.

G. Parts Inventory

- Control of automotive parts inventory is not centralized. Fleet Services operates one central automotive parts warehouse and the Purchasing and Materials Management Division operates another five City Stores that also supply automotive parts. The issue of centralizing automotive parts supply should be addressed in a Corporate warehouse review being undertaken, as well as Fleet Services' pending issuance of a Request for Proposal for the supply of parts on consignment basis.

- Controls over parts inventory managed by Fleet Services need strengthening:
 - lack of criteria for tracking individual inventory items;
 - no periodic inventory counts conducted except annual physical count at year-end;
 - inventory includes obsolete items; and
 - inadequate controls over parts inventory at satellite garages.

H. Relevance to Other Organizations

- Recommendations in this report may have relevance to those City organizations that operate their own fleets. These organizations include Fire Services, Emergency Medical Services, Toronto Police Service, Toronto Library Board, Toronto Zoo and Exhibition Place. This report should be forwarded to them for review and consideration.

RECOMMENDATIONS

The following is a list of recommendations contained in the body of the report. A more detailed explanation of the recommendation is provided on the page number shown to the right of each recommendation.

Recommendations:

- 1. The City Manager review the current Corporate governance structure of Fleet Services and determine the extent of resources allocated to fleet-related functions in all City departments with a view to:**
 - (a) evaluating the feasibility of centralizing ownership, control and accountability of City fleet and integrating all fleet operations and related funding within Fleet Services; and**
 - (b) reporting to the Policy and Finance Committee by January 2006. Such report to include the following:**
 - (i) proposed organizational structure to integrate all fleet services;**
 - (ii) costs and benefits of such change;**
 - (iii) roles and responsibilities of Fleet Services and user departments;**
 - (iv) impact on the operating and capital budgets of Fleet Services and user departments; and**
 - (v) recommended action, including specific timelines for implementation.**

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2. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure:

(a) all fleet-related costs are considered prior to authorizing equipment repairs, providing that no further repairs be made to equipment scheduled for disposal within a specified period or equipment with total maintenance and repair costs within a specified percentage of its replacement value, without written justification for the repair authorized by Fleet Services, in consultation with the operating division. At a minimum, justification to specify that:

(i) no similar equipment from other programs or Corporate pool is available as temporary replacement; and

(ii) equipment has been scheduled for replacement at a specified date.

(b) all equipment acquisitions comply with standard equipment specifications, with a view to further reducing the number of equipment types and models; and

(c) a progressive enforcement program be established for ensuring equipment receives preventive maintenance on a timely basis.

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3. The Deputy City Manager and Chief Financial Officer explore the possibility of purchasing year-old off-lease or nearly-new vehicles.

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- 4. The City Manager establish a Corporate-wide policy providing that:**
- (a) Fleet Services be designated as the primary provider of maintenance and repair services for City equipment;**
 - (b) Fleet Services co-ordinate all referrals of maintenance and repair services to private repair shops, if required.**

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- 5. The City Manager evaluate the feasibility of centralizing all rental vehicles within Fleet Services and report to the Policy and Finance Committee by January 2006.**

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- 6. The Deputy City Manager and Chief Financial Officer implement policies and procedures pertaining to vehicle rentals requiring that:**

- (a) detailed business cases be provided by all departments for rental vehicles, such business cases to take into account the following:**
 - (i) cost benefit of renting as opposed to purchasing vehicles;**
 - (ii) availability of similar under-utilized or surplus vehicles in other programs or departments; and**
 - (iii) the possibility of sharing vehicles with other programs for use throughout the year;**
- (b) Fleet Services assume responsibility for ensuring business cases for rental vehicles are completed, reviewed and authorized; and**
- (c) where rental vehicles are used throughout the year for permanent programs, contribution to the vehicle and equipment replacement program be provided towards the purchase of the vehicle within a specified period.**

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7. **The City Manager report to the Administration Committee, upon completion of the Yards Rationalization Study, on the status of the recommended closures of the maintenance garages located at 875 Eastern Avenue, 1008 Yonge Street, 1401 Castlefield Avenue and 30 Northline Road.**

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8. **The City Manager give priority to the completion of the Yards Rationalization Study and report to the Administration Committee by October 2005 on the status of the study and expected implementation timelines.**

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9. **The City Manager report to the Works Committee and Administration Committee by October 2005, on the results of Phase One of the Yards Rationalization Study, as directed by Council in 2001. Such report to provide the following:**

- (a) **an assessment of the value of the study;**
- (b) **expected timelines and requirements to complete Phase Two of the study, giving priority to the completion of the study; and**
- (c) **the potential impact of any yard closure, resulting from the study, on other programs such as maintenance garages, City Stores and fuel dispensing sites.**

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10. **The Deputy City Manager and Chief Financial Officer use the M4 Fleet Management Information System to analyze work performance by comparing actual work hours on specific repairs to industry standards and generating exception reports identifying those repairs where actual work hours vary significantly from industry standards. Such reports to be reviewed by supervisory staff, significant variances investigated and appropriate corrective action taken.**

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11. The Deputy City Manager and Chief Financial Officer establish efficiency and effectiveness performance measures for fleet operations that provide a basis for trend analysis of costs, productivity and performance, and for comparison internally between locations and previous performance or externally with other leading local government fleet organizations.

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12. The Deputy City Manager and Chief Financial Officer modify the calculation of the standard hourly labour rate used to bill user departments for services performed at City garages, in order to ensure that full-cost recovery is achieved, as directed by Council.

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13. The Deputy City Manager and Chief Financial Officer establish criteria for using private repair shops and procedures to ensure repairs and other fleet-related services are referred to private repair shops accordingly.

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14. The Deputy City Manager and Chief Financial Officer, in consultation with the Chief Financial Officer and Treasurer, explore the possibility of using preferred vendors selected through a competitive process to provide repair services for City vehicles at negotiated rates.

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15. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure payments for work performed by private repair shops are in compliance with Corporate purchasing policies.

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16. The Deputy City Manager and Chief Financial Officer take necessary steps to:

- (a) develop criteria for conducting random quality assurance inspections of vehicles serviced by private repair shops, including the frequency, timing and nature of the inspection;**
- (b) develop a standard form to document the inspection and retain documentation for review by supervisory staff; and**
- (c) evaluate inspection results, taking appropriate corrective action, where necessary, in order to ensure the effectiveness of the program.**

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17. The Deputy City Manager and Chief Financial Officer review practices with respect to warranty repairs and take appropriate steps to:

- (a) establish criteria for determining when warranty repairs should be referred to the manufacturer or performed internally;**
- (b) utilize the M4 Fleet Management Information System for recording warranty information and tracking warranty repairs;**
- (c) ensure eligible costs for warranty repairs are recovered from the manufacturer; and**
- (d) formalize warranty reimbursements from manufacturers when in-house warranty repairs are made, ensuring full recovery of direct labour costs.**

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18. The Deputy City Manager and Chief Financial Officer take necessary steps to ensure that odometer and hour meter readings are accurately recorded in the M4 Fleet Management Information System by garage staff prior to work order close-out.

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19. The Deputy City Manager and Chief Financial Officer take appropriate steps to identify standard management reports that should be generated from the M4 Fleet Management Information System, the purpose and frequency of such reports and the staff responsible for their review and appropriate follow-up action.

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20. The Deputy City Manager and Chief Financial Officer evaluate resources required to provide adequate technical support to the M4 Fleet Management Information System and ensure sufficient City staff are adequately trained to provide necessary technical support in the day-to-day operational use of the system.

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21. The Deputy City Manager and Chief Financial Officer review the possibility of automating the subsequent posting of unmatched data to the M4 System.

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22. The City Manager ensure that the pending Corporate warehouse review undertaken as part of the rationalization of City Stores, and as requested by the Budget Advisory Committee, includes:

- (a) an evaluation of centralizing control of all automotive parts inventory:**
 - (i) under Fleet Services or Purchasing and Materials Management; and**
 - (ii) using one management information system for tracking parts inventory using either M4 Fleet Management Information System or SAP; and**
- (b) the establishment of centralized policies and procedures for inventory management at all automotive parts warehouses, ensuring adequate controls are in place, including:**

- (i) establishing criteria for items to be included in inventory;**
- (ii) utilizing available system features for tracking inventory usage and re-order levels;**
- (iii) conducting periodic surprise counts of items over a specified value;**
- (iv) using metered dispensing equipment for bulk items in large volumes such as oils and lubricants; and**
- (v) disposing obsolete items on a timely basis.**

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23. The Deputy City Manager and Chief Financial Officer review the proposed parts consignment model prior to finalizing any agreement, with a view to:

- (a) evaluating all costs and benefits including potential additional costs for staffing, warehouse re-configuration and opportunity costs for increased warehouse space requirements;**
- (b) determining the proper disposition of existing inventory; and**
- (c) ensuring that control of warehouses maintaining inventory is centralized under one management responsibility.**

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24. The Deputy City Manager and Chief Financial Officer establish policies and procedures regarding storage and inventory record-keeping at satellite garages, ensuring parts are securely stored, used only for authorized City vehicles and properly accounted for.

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- 25. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure an up-to-date detailed inventory listing of shop tools and equipment over a specified amount is maintained at each City-operated garage, providing that:**
- (a) such listing include identification number, value of the items, details of purchase (i.e., date, supplier, invoice number); and**
 - (b) a physical inventory count of shop tools and equipment be conducted periodically, discrepancies investigated and adjustments made to the records only after review and approval by an authorized official.**

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- 26. City Council direct that this report be forwarded to those City organizations who separately manage their own fleet operations, including Emergency Medical Services, Fire Services, Toronto Police Service, Toronto Library Board, Toronto Zoo and Exhibition Place, in order to ensure that issues raised are addressed by them where appropriate. These organizations be required to report back to the first 2006 meeting of the Audit Committee in connection with the results of their review, specifically addressing:**
- (a) garage operations;**
 - (b) maintenance and repairs by private repair shops;**
 - (c) fleet management information systems; and**
 - (d) parts inventory controls.**

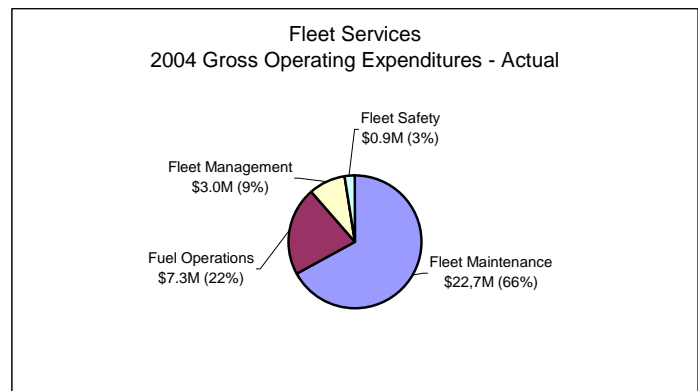
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BACKGROUND

The Fleet Services Division is currently managed by a Director, who reports to the Chief Corporate Officer. Fleet Services provides fleet maintenance, fuel operations, fleet safety and fleet management services to over 4,000 units, including passenger cars, vans, snowplows, heavy trucks, packers, loaders and groundskeeping equipment. Fleet Services is also involved in implementing environmental initiatives and licensing and registration of City vehicles.

In addition, Fleet Services is responsible for compliance with the Commercial Vehicle Operator's Registration Program of the Highway Traffic Act of all vehicles and equipment with wheels and axles having a replacement value exceeding \$5,000. Vehicles and equipment with a value under \$5,000 are the responsibility of the respective departments. Fleet Services is not responsible for fleets maintained by Fire Services and Emergency Medical Services. As well, Fleet Services does not manage the fleet of the Toronto Police Service and other Agencies, Boards and Commissions, such as the Toronto Transit Commission, Toronto Library Board, Toronto Zoo and Exhibition Place. These fleets are managed by the respective organizations, although Fleet Services has an arrangement with the Toronto Library Board to provide maintenance services on request.

Fleet Services Division's 2004 approved gross operating budget was \$30.7 million based on a full-cost recovery model. Actual expenditures amounted to \$33.9 million, of which \$33.6 million was recovered from departments. A breakdown of fleet expenditures by function is illustrated in the adjacent graph. A summary of the Division's revenue and expenditures for 2001 to 2004 is provided in Appendix 3.



Fleet Services operates 13 maintenance locations across the City, including four main garages and nine satellite garages. A site map showing City-operated maintenance locations is provided in Appendix 4. Fleet Services also operates a central automotive parts warehouse located at 843 Eastern Avenue. City Stores located at other garages, which supply both general and automotive parts, are operated by the Purchasing and Materials Management Division.

Fleet Services' primary objective is safety and service delivery. With respect to safety, Fleet Services has established a safety and training program which received 100 percent compliance rating on this area from the Ministry of Transportation in its last safety audit in 2002.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Phase Two audit objectives were designed to assess the effectiveness of the City's fleet operations and identify opportunities for improvement, cost savings and improved efficiencies and controls related to the following areas:

- control of fleet equipment;
- repairs and maintenance;
- fleet management information system;
- parts procurement and inventory;
- rental vehicles; and
- other related issues.

Our audit methodology included the following:

- review of prior reports related to fleet operations, including the June 1999 report of KPMG LLP entitled "Review of Existing Fleet and Garage Operations", Fleet Services Future Plan and other reports to Council pertaining to Fleet Services Division;
- interviews with appropriate Fleet Services and departmental staff;
- review of policies and procedures;
- review of documents, management reports and records;
- review of audit reports, fleet practices and standards in place at selected municipalities throughout North America, including:
 - Berkeley, California;
 - Edmonton, Alberta;
 - Gainesville, Florida;
 - the Office of the Inspector General, Metropolitan Transportation Authority, State of New York;

- Ottawa, Ontario;
 - Richmond, Virginia;
 - San Jose, California;
 - Seattle, Washington;
 - Tallahassee, Florida;
 - Tampa, Florida;
 - West Palm Beach, Florida;
-
- visits to four City-operated maintenance locations and equipment stores; and
 - analysis and investigation of allegations made to the Fraud and Waste Hotline Program pertaining to fleet-related issues.

Our review focused on fleet operations managed by Fleet Services and did not include the fleet operations managed by Fire Services, Emergency Medical Services, Toronto Police Service and other Agencies, Boards and Commissions, such as the Toronto Transit Commission, Toronto Library Board, Toronto Zoo and Exhibition Place. However, the recommendations in this report may be applicable to each one of these organizations.

FINDINGS AND RECOMMENDATIONS

Our findings and recommendations are based on a best practice model determined from our audit work. Our benchmarking of other local government organizational fleet service providers in North America confirmed that most fleet service facilities are structured and managed around the model and practices described in Table 1 below. Table 1 also indicates whether the City's fleet operations follow the best practice described.

Table 1: Survey of Best Practices of North American Fleet Services			
Area	Best Practice	Current City Practice?	
		Yes	No
Ownership, Control and Accountability	- Fleet Services owns and controls all vehicles and equipment.		√
	- Fleet Services has primary responsibility for vehicle and equipment replacement decisions (in consultation with user departments).		√
	- Fleet Services has primary responsibility for vehicle and equipment maintenance decisions (in consultation with user departments)		√
Acquisition/ Replacement	- Vehicles and equipment are replaced in accordance with a prescribed schedule in order to minimize maintenance costs and maximize resale value.		√
Rental Vehicles	- Rental vehicles are generally not used except in emergency situations or for short-term use.		√
Funding	- Fleet Services is funded through an internal service or similar proprietary fund, which is restricted for fleet use only.	√	
	- Fleet Services leases vehicles and equipment to user departments at a fixed cost.		√
	- User departments are charged a variable charge based on required repairs.	√	
	- Funds are consistently budgeted on an annual basis for fleet replacement based on a systematic replacement program.		√
Preventive Maintenance	- Preventative Maintenance is performed in accordance with a schedule strictly enforced by Fleet Services.		√
	- Preventative Maintenance is performed by Fleet Services mechanics (not outside service providers) and include a thorough early detection inspection of equipment.	√	
Pool Vehicles	- Fleet Services maintains control of all pool vehicles.		√
	- Departments are charged for pool vehicles.	√	
Warranty Work	- Warranty work is always performed by certified mechanics in order to maximize the benefit of manufacturer warranties.	√	

As noted in Table 1 above, a number of best practices are not followed by the City under the current Corporate governance model. Detailed commentary on each specific area is provided below.

A. FLEET OWNERSHIP, CONTROL AND ACCOUNTABILITY

A.1. City Fleet Needs Centralized Ownership, Control and Accountability

The City's current Corporate governance model provides for decentralized control of fleet operations. Fleet Services provides maintenance and support services to City departments, excluding Fire Services, Emergency Medical Services, Toronto Police Service and the Toronto Transit Commission. These other organizations manage their respective fleets. Fleet Services has an arrangement with the Toronto Library Board to provide maintenance and support services for their vehicles and equipment.

While Fleet Services provides maintenance and support services, ultimate decision-making authority for significant fleet-related matters rests with user departments, which own and control the equipment. Unless safety is a concern, user departments decide on such matters as:

- specific maintenance and repairs;
- replacement and disposal of specific vehicles and equipment;
- amounts contributed to the Vehicle and Equipment Replacement Reserve; and
- vehicle and equipment assignment and utilization.

Issues that arise from user departments having the decision-making authority on fleet-related matters are significant. A complete and detailed analysis of the consequences of this Corporate model is not within the scope of this report. However, our review produced sufficient information to conclude that the negative effects resulting from the current governance model are sufficient for us to recommend re-evaluating the current Corporate governance model for Fleet Services. From research, interviews and surveys conducted during our audit, we identified several issues resulting from the current governance model.

Decisions by user departments on fleet-related matters tend to focus primarily on the interest of the individual program or department, lacking the broader Corporate perspective and are often short-sighted. User departments, in general, fail to consider the following issues when making such decisions:

- A Corporate perspective on overall fleet requirements;
- Existence of under-utilized equipment available in other programs or departments;
- Under-utilization of in-house (Fleet Services) expertise in determining specific equipment to replace, repair or dispose;
- Maintenance implications of vehicle and equipment acquisitions; and
- Total cost of equipment (life cycle cost of equipment from date of purchase to date of disposal).

The decentralized control model for City fleet operations hinders management's ability to:

- ensure maintenance and repairs are cost-effective;
- provide an adequate vehicle and equipment replacement program;
- re-assign equipment across departments;
- optimize fleet utilization; and
- monitor and control overall fleet-related costs.

Based on our review of best practices in other North American fleet service organizations, an effective fleet management structure should provide for ownership and management of all vehicles and equipment with one central internal unit with adequate decision-making authority that provides a focused, structured and systematic approach to Corporate-wide fleet services. A centralized fleet management approach is more efficient through consistent policy implementation and reduced administrative costs because it requires only one organization with fleet expertise and one information technology system to manage fleet assets. Centralized fleet management also achieves economies of scale and reduces duplication of effort.

Specific examples of inefficiencies arising from the current decentralized Corporate governance structure of fleet services and the benefits of centralization are described below.

A.2. Some Repairs Could Be Avoided

While Fleet Services provides maintenance and repair services, user departments decide on specific repairs made to equipment. This decentralized approach results in inefficiencies and lack of accountability with respect to fleet management. At times, repair decisions are made in a reactive mode without due consideration for the cost effectiveness of the repair or the viability of the equipment. For instance, the immediate need to repair equipment may override the fact that the equipment has reached its economic useful life. In some cases, repair costs exceed the equipment value.

Our review of vehicle maintenance records indicated that a number of vehicles have total maintenance and repair costs exceeding the vehicle replacement value. Fleet Services staff explained that although certain costly repairs for vehicles were not advised, user departments may choose to incur the repair cost in order to meet operational needs while deferring replacement of the vehicle. User departments, however, may not be aware of similar vehicles in other programs that could be used as replacement.

As reported in our Phase One report, a number of under-utilized vehicles were identified. Opportunities may exist for utilizing similar under-utilized equipment in other departments rather than incur costly repairs. Having centralized control of City equipment facilitates a structured and systematic approach for identification and re-assignment of under-utilized vehicles across departments and prioritizing replacement of vehicles with excessive repair costs, thus avoiding costly repairs.

A.3. Fleet Utilization Could Be Optimized and Fleet Inventory Reduced

In order to optimize equipment utilization, it is essential that the fleet management structure provides central monitoring of equipment utilization, centralized control of pool equipment for Corporate-wide use and flexibility to re-assign equipment across departments with greater operational need.

The current Corporate governance model with user departments responsible for vehicle assignment and utilization provides limited flexibility to re-assign equipment across departments. In addition, as reported in our Phase One report, there is no centralized monitoring of vehicle utilization and, in fact, a number of under-utilized vehicles were identified. There is also limited control of pool vehicles for Corporate-wide use. Consequently, equipment utilization is not optimized.

While Fleet Services staff indicated that re-assignment of vehicles occurs as needed, centralizing ownership and control of City equipment facilitates a more structured and systematic approach to the assignment of vehicles based on operational need. Centralizing ownership and control of equipment also allows greater flexibility to re-assign equipment across departments and enhances the ability to pool vehicles for Corporate-wide use. In addition, centralized ownership and control of equipment combined with centralized monitoring of utilization enhances the ability to identify surplus equipment, resulting in reduction of fleet inventory.

A.4. Vehicle and Equipment Replacement Reserve Funding Could Be Improved

Effective fleet management requires a structured and systematic equipment replacement program that allows equipment replacement on a timely basis. Following a prescribed replacement schedule results in lower maintenance costs and higher salvage proceeds.

As reported in our Phase One report, the Vehicle and Equipment Replacement Reserve is funded through contributions from user departments and proceeds from disposal of vehicles and equipment. However, contributions to the reserve have not kept pace with the requirements and, for several years, have been based on a “pay-as-you-go” basis. As a result, the reserve is underfunded causing delays in the replacement of vehicles and equipment. This has been cited by management as the primary reason for departments incurring costly repairs even on vehicles that have reached their economic useful life. The lack of adequate replacement funding has also been attributed to additional rental vehicle costs in order to provide temporary replacement for vehicles that cannot yet be replaced. Rental vehicles and excessive repairs of old equipment provide only a short-term solution to a long-term problem and result in higher costs to the City in the longer term. Further discussion on rental vehicles is provided in Section B – Rental Vehicles and Equipment.

In response to our Phase One report, a joint report by the then Commissioner of Corporate Services and the then Chief Financial Officer and Treasurer entitled “Contributions to the Vehicle and Equipment Replacement Reserve” dated September 13, 2004 was submitted to the Policy and Finance Committee and subsequently approved as part of the 2005 Operating Budget process. That report included a recommendation that Fleet Services develop a vehicle/equipment chargeback rate program for the 2006 budget cycle with the charge to include vehicle and equipment operating costs.

The chargeback rate program cited in that report can be viewed as a cost-recovery option that supports centralization. It allows the stabilization of funding for the expected life-cycle costs of the equipment over the estimated life of the equipment. However, it is only applied to new equipment.

Fleet Services staff indicated that it would take approximately 14 years before all equipment becomes part of the chargeback rate program. In addition, if ownership and control of City fleet continue to rest with user departments that dictate the use of replacement funds without the broader Corporate perspective, the benefits of the program would be limited.

While the chargeback rate program is a step in the right direction, addressing the issues of aging fleet and increasing maintenance costs in the near-term would strengthen the effort and likely accelerate the period required to fully fund the Vehicle and Equipment Replacement Reserve. Integration of all fleet-related funding on a Corporate-wide level is key to ensuring the cost effectiveness of operations. The centralization of City fleet recommended in this report involves a wider span of control, ownership and accountability that would allow prioritization of fleet replacement, assignment and utilization across departments from a Corporate perspective based on service priorities determined by Council.

Given the continuing pressures to provide additional reserve funding, opportunities exist to re-evaluate the current vehicle and equipment replacement program in order to alleviate the adverse effects of reserve underfunding. As previously indicated, alternatives to purchasing equipment due to lack of funds (i.e., repairing equipment scheduled for replacement and using rental vehicles) result in higher costs in the long term.

Our analysis of 2004 maintenance and repair costs showed that of the \$21.4 million spent on vehicles and equipment managed by Fleet Services, approximately \$5.7 million (27 percent) was spent on units marked for replacement and \$213,000 (1 percent) on units subsequently disposed of within a year. In addition, the City spent another \$ 3.1 million on rental vehicles and equipment in 2004.

Opportunities exist to reallocate some of these funds toward equipment replacement. These costs need to be evaluated from a broader Corporate perspective, with a view to integrating all replacement-related funding into the establishment of a systematic equipment replacement program. This process should be co-ordinated at a Corporate-wide level and having centralized control of equipment would facilitate such a process.

A.5. Fleet Acquisition and Standardization Could Be Enhanced

Fleet Services, in consultation with user departments, co-ordinates the acquisition of equipment. As reported in our Phase One report, Fleet Services has taken efforts toward standardizing equipment specifications to help streamline the procurement process. A Fleet Acquisition and Specifications Support Team comprising of staff from various departments was created in 2002 to establish standardized equipment specifications. Maintaining numerous types of equipment with varied specifications demands varied technical skills from staff to repair equipment and is not efficient. While progress has been made to reduce the variety of equipment types, centralizing the control of equipment in one organization facilitates a more structured and systematic process of implementing further standardization and reduction in the number of equipment specifications.

With respect to fleet acquisition, opportunities exist for enhancing the process through centralization. Under the current decentralized control model, while Fleet Services provides advice, user departments have ultimate decision-making authority regarding the number of units purchased. We observed that in a number of instances, the number of units purchased was higher than the requirement specified on the request for quotation. While the differences were not significant, it is important that the request for quotation reflects the actual number of units required in order to ensure that proper pricing is obtained and the integrity of the procurement process is maintained. A structured and systematic equipment replacement plan developed and controlled centrally helps minimize the need to deviate from the plan.

We also observed that in some instances, vehicles were purchased at the lowest cost meeting specifications, even though the vehicles were larger or had bigger engines than required, which could mean higher maintenance, fuel and environmental costs. Although the higher costs may be offset by potential increased salvage value, it is important that other factors other than lowest purchase price and meeting specifications such as estimated life-cycle costs are evaluated for fleet acquisition in order to ensure cost-effectiveness.

Current City purchasing practices also require the purchase of new vehicles only. We observed that fleet organizations in other jurisdictions use the option of purchasing off-lease or year-old equipment. This option may serve as a viable alternative for maximizing use of equipment replacement funding and may be a better alternative than renting vehicles or repairing old equipment and should be considered.

A.6. Compliance with Preventive Maintenance Schedules Could Be Improved

Regular preventive maintenance of equipment helps extend useful life, minimize repair costs and enhances vehicle reliability and safety. It helps detect deficiencies before they become a major problem. Failure to provide regular preventive maintenance to equipment generally results in costly repairs in the long term.

Fleet Services is responsible for scheduling preventive maintenance service of equipment. However, Fleet Services has no recourse if the user department does not deliver vehicles for scheduled preventive maintenance.

Our analysis of vehicles requiring a preventive maintenance every 120 days (or three times a year) indicated that 422 out of 644 vehicle or 67 percent received only one or two preventive maintenance services in 2003. Fleet Services staff indicated that, at times, vehicles could not be located. Since user departments are responsible for the assignment and usage of vehicles, changes to vehicle assignment are not always reported to Fleet Services. Consequently, delays occur in locating vehicles. Although procedures are in place requiring user departments to notify Fleet Services of such changes, non-compliance is common. Centralizing the control of equipment alleviates these problems through centralized systematic monitoring of equipment assignment and usage. It also facilitates establishing a progressive enforcement program when equipment is not delivered for preventive maintenance on a timely basis.

A.7. Monitoring and Control of Fleet Costs Should Be Improved

Although Fleet Services provides maintenance to the City fleet, certain departments manage the maintenance and repairs of a portion of their fleet. For example, Solid Waste Management Services and Toronto Water manage maintenance and repairs of certain equipment by using private repair shops without Fleet Services' involvement. This decentralized arrangement is inefficient and hinders the ability to centrally monitor total maintenance and repair costs. Procurement of all maintenance services through Fleet Services should be integrated in order to ensure benefits of economies of scale are realized, duplication of effort eliminated and fleet-related costs are co-ordinated within a broader Corporate perspective. This can be achieved by designating Fleet Services as the primary provider of maintenance services for City fleet with decision-making authority to use private repair shops as necessary.

In summary, an effective fleet management requires centralized control of fleet operations under one organization providing technical expertise and the authority to make decisions on all significant fleet-related matters, in consultation with user departments. We believe this function appropriately rests with Fleet Services.

Recommendations:

- 1. The City Manager review the current Corporate governance structure of Fleet Services and determine the extent of resources allocated to fleet-related functions in all City departments, with a view to:**
 - (a) evaluating the feasibility of centralizing ownership, control and accountability of City fleet and integrating all fleet operations and related funding within Fleet Services; and**
 - (b) reporting to the Policy and Finance Committee by January 2006. Such report to include the following:**

- (i) proposed organizational structure to integrate all fleet services;**
- (ii) costs and benefits of such change;**
- (iii) roles and responsibilities of Fleet Services and user departments;**
- (iv) impact on the operating and capital budgets of Fleet Services and user departments; and**
- (v) recommended action, including specific timelines for implementation.**

2. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure:

- (a) all fleet-related costs are considered prior to authorizing equipment repairs, providing that no further repairs be made to equipment scheduled for disposal within a specified period or equipment with total maintenance and repair costs within a specified percentage of its replacement value, without written justification for the repair authorized by Fleet Services, in consultation with the operating division. At a minimum, justification to specify that:
 - (i) no similar equipment from other programs or Corporate pool is available as a temporary replacement; and**
 - (ii) equipment has been scheduled for replacement at a specified date.****
- (b) all equipment acquisitions comply with standard equipment specifications, with a view to further reducing the number of equipment types and models; and**
- (c) a progressive enforcement program be established for ensuring equipment receives preventive maintenance on a timely basis.**

- 3. The Deputy City Manager and Chief Financial Officer explore the possibility of purchasing year-old off-lease or nearly new vehicles.**

- 4. The City Manager establish a Corporate-wide policy providing that:**
 - (a) Fleet Services be designated as the primary provider of maintenance and repair services for City equipment;**

 - (b) Fleet Services co-ordinate all referrals of maintenance and repair services to private repair shops, if required.**

B. RENTAL VEHICLES AND EQUIPMENT

The Audit Committee, during its consideration of our Phase One report in February 2004, 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.” In response to this request, a report dated February 27, 2004 was forwarded to City Council at its April 2004 meeting.

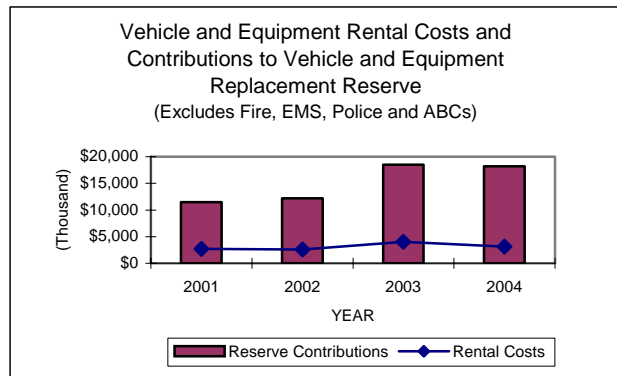
Council, at its April 2004 meeting, recommended that “the Auditor General be requested to submit a further report to the Audit Committee providing further information regarding the lease cost continuing to escalate at the same time as the funding for the vehicle replacement program has been increased substantially.”

During the course of our compilation of requested information regarding rental vehicles, it became apparent that other related issues needed to be addressed, as discussed below.

B.1. Rental Vehicles and Equipment Need Centralized Control and Accountability

The City's fleet (vehicles and equipment) rentals are administered by individual user departments. Fleet Services Division has no role in the acquisition of fleet rentals and, as such, is not aware of the full extent of fleet rental use by the City. Fleet Services' involvement with respect to fleet rentals is restricted to the issuance of fuel cards.

According to City records, the City spent approximately \$3.1 million for vehicle and equipment rentals and contributed \$18.2 million towards the vehicle and equipment replacement reserve in 2004. A summary of vehicle and equipment rental costs and contributions to the vehicle and equipment reserve for the years 2001 to 2004 is provided in the adjacent graph.



User departments are responsible for managing fleet rentals. Given the wide extent of departmental staff involved in the administration of fleet rentals, the varied terms of rental arrangements and the lack of Corporate standards for monitoring usage, it is difficult to determine the exact number of rental vehicles and equipment used by the City at any one time. However, Fleet Services is responsible for the issuance of fuel cards for rental vehicles and equipment to obtain fuel at City-operated fuel sites. According to Fleet Services records, there were 438 rental vehicles and equipment at the end of 2004. While this gives an approximation of the number of fleet rentals used by the City, it does not include rental units that may use commercial fuel credit cards.

Departmental staff indicated that vehicles are rented, rather than purchased, generally for the following reasons:

- new or temporary programs for which no capital funding is provided for the required vehicles;
- additional vehicles for seasonal staff; and
- temporary replacement for vehicles that cannot yet be replaced due to insufficient funds.

In some cases, new initiatives approved by Council do not provide consideration to the capital costs of vehicles required to maintain a temporary program. For example, the Clean Streets project provided for additional staff, but did not provide for the capital cost of vehicles required for the program. In such cases, required vehicles are rented rather than purchased.

With respect to vehicles provided to seasonal staff, we observed that similar vehicles are rented by Parks, Forestry and Recreation during the summer months and another set of vehicles by Transportation Services during the winter months. Opportunity exists for cost savings by purchasing vehicles that could be shared by both divisions. Centralizing the control of fleet rentals facilitates the sharing of equipment across departments.

In some cases, user departments rent vehicles as temporary replacements for units that cannot be replaced due to lack of funding. Staff indicated that, for example, in the short-term it would be more affordable to provide \$5,000 for rental than \$25,000 for new equipment. This condition results from lack of a systematic replacement program. As reported in our Phase One report, funding to the replacement reserve had been on a “pay-as-you go” basis for the past number of years. However, this arrangement only provides a short-term solution to a long-term problem and results in higher costs in the long term.

Decisions to obtain fleet rentals are made by user departments based on operational need. Given the decentralized control of both City-owned and rental vehicles and equipment, user departments make such decisions often without awareness of the existence of similar under-utilized vehicles in other programs. Currently, business cases are not required for procurement of rental vehicles.

The decentralized control of rental vehicles is inefficient and not cost-effective. Funding of rental vehicles should be integrated with the determination of the contribution to the Vehicle and Equipment Replacement Reserve Fund in order to ensure effective use of limited funds. Centralized control of rental vehicles would facilitate this process.

Recommendations:

- 5. The City Manager evaluate the feasibility of centralizing all rental vehicles within Fleet Services and report to the Policy and Finance Committee by January 2006.**
- 6. The Deputy City Manager and Chief Financial Officer implement policies and procedures pertaining to vehicle rentals requiring that:**
 - (a) detailed business cases be provided by all departments for rental vehicles, such business cases to take into account the following:**
 - (i) cost benefit of renting as opposed to purchasing vehicles;**
 - (ii) availability of similar under-utilized or surplus vehicles in other programs or departments; and**
 - (iii) the possibility of sharing vehicles with other programs for use throughout the year;**
 - (b) Fleet Services assume responsibility for ensuring business cases for rental vehicles are completed, reviewed and authorized; and**
 - (c) where rental vehicles are used throughout the year for permanent programs, contribution to the vehicle and equipment replacement program be provided towards the purchase of the vehicle within a specified period.**

C. CITY GARAGE OPERATIONS

C.1 Number of Operational Garages Requires Review

Fleet Services operates 13 maintenance garages to provide services to City departments, excluding Fire Services and Emergency Medical Services. With the exception of the Toronto Library Board, Fleet Services does not provide maintenance services to Toronto Police Service and other Agencies, Boards and Commissions.

A site map showing the location of the 13 City-operated maintenance locations is provided in Appendix 4.

In 1999, Council adopted, in principle, recommendations from the KPMG LLP Fleet Review, which included the following recommendations affecting garage locations:

- closure of five garages by December 31, 1999;
- closure of the Eastern Groundskeeping Garage at 875 Eastern Avenue, subject to the relocation of Fire Services from 843 Eastern Avenue to another facility;
- yards rationalization study that could identify additional garage closures; and
- the feasibility of the City operating four garages to be supplemented with mobile units.

In accordance with Council's directive, the closure of the five garages identified in the KPMG LLP Fleet Review was implemented, reducing the number of City-operated garages from 18 facilities to 13 facilities. In 2001, Council adopted the Fleet Services Future Plan, which addressed most of the recommendations of the KPMG LLP Review. The Fleet Services Future Plan included a recommendation for the closure of four garages, including 875 Eastern Avenue that was previously identified for closure and three additional garages as follows:

- 1008 Yonge Street;
- 1401 Castlefield Avenue; and
- 30 Northline Road.

The recommendation also provided that timing of the closures be co-ordinated with the Yards Rationalization Study. In a January 2003 report to the Budget Advisory Committee, the then Commissioner, Corporate Services, provided a status update of the Fleet Services garage consolidation.

The report outlined various factors being considered prior to the recommended closure of the four garages previously identified, most of which were expected to be completed in 2003 and at which time subsequent reports would be submitted. Such reports are still outstanding and the closures have not yet been implemented.

With respect to yards rationalization, the then Works and Emergency Services Department initiated Phase One of a Yards Rationalization Study. A report requested by Council in May 2001 on an assessment of the value of the study and request for approval of funding for Phase Two of the study remains outstanding. The Yards Rationalization Study is currently being undertaken by the Facilities and Real Estate Division. The results of the study would have a direct impact not only on the closure of maintenance garages, but also City Stores located at affected locations. Therefore, it is essential that priority be given to the completion of this project.

Recommendations:

- 7. The City Manager report to the Administration Committee, upon completion of the Yards Rationalization Study, on the status of the recommended closures of the maintenance garages located at 875 Eastern Avenue, 1008 Yonge Street, 1401 Castlefield Avenue and 30 Northline Road.**
- 8. The City Manager give priority to the completion of the Yards Rationalization Study and report to the Administration Committee by October 2005 on the status of the study and expected implementation timelines.**

9. The City Manager report to the Works Committee and Administration Committee by October 2005, on the results of Phase One of the Yards Rationalization Study, as directed by Council in 2001. Such report to provide the following:

- (a) an assessment of the value of the study;**
- (b) expected timelines and requirements to complete Phase Two of the study, giving priority to the completion of the study; and**
- (c) the potential impact of any yard closure, resulting from the study, on other programs such as maintenance garages, City Stores and fuel dispensing sites.**

C.2. Performance Measures Need to Be Enhanced

Performance measurement serves as a tool to enhance decision-making and accountability by identifying the current state of organizational effectiveness and efficiency. While we recognize Fleet Services' ongoing efforts to improve productivity, current performance measures could be enhanced to include other efficiency and unit cost performance measures for both in-house and contracted services.

For example, there is a need to measure downtime, analyse trends for maintenance and repair costs and the level of overhead costs. There are a number of criteria available to benchmark various aspects of garage operations and overall fleet operations between locations or as an organization in comparison with previous in-house performance or other local government fleet organizations.

Fleet Services uses a bar coding system linked to the M4 Fleet Management Information System to record actual labour hours spent on each work order. Mechanics are assigned an identification card containing a bar code that is scanned to record mechanic time spent on a work order.

For routine maintenance such as oil, lubrication and filter, standard labour hours have been developed and monitored in the M4 Fleet Management Information System. Productivity reports are generated and reviewed for reasonableness by garage supervisors on an ongoing basis. The Fleet Operations Manager also generates and reviews quarterly productivity reports, showing a comparison of the employee hours billed to total billable hours available. Significant variances are investigated and appropriate action taken, if necessary.

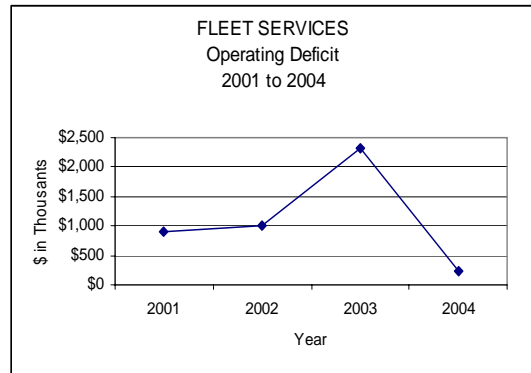
However, for other repair types such as brake repairs, reliance is placed on supervisory experience to determine whether time spent on a specific job is reasonable. If necessary, the supervisor refers to industry standards for comparison. In order to improve the review process and facilitate the analysis of work performance by activity, employee or location, the industry standard for each activity could be entered into the M4 System for ease of comparison. This information could then be used to generate exception reports identifying repairs where actual work hours are substantially different than industry standards.

Recommendation:

- 10. The Deputy City Manager and Chief Financial Officer use the M4 Fleet Management Information System to analyze work performance by comparing actual work hours on specific repairs to industry standards and generating exception reports identifying those repairs where actual work hours vary significantly from industry standards. Such reports to be reviewed by supervisory staff, significant variances investigated and appropriate corrective action taken.**
- 11. The Deputy City Manager and Chief Financial Officer establish efficiency and effectiveness performance measures for fleet operations that provide a basis for trend analysis of costs, productivity and performance, and for comparison internally between locations and previous performance or externally with other leading local government fleet organizations.**

C.3. Standard Hourly Labour Rate Needs Modification

The Fleet Services Division's operating budget is approved based on a full-cost recovery model. The objective of this model is to ensure all costs are recovered through chargebacks to user departments. During the last three years, however, the Division has not fully recovered its costs resulting in increasing operating deficits of \$895,000, \$1,013,000 and \$2,317,000 in 2001, 2002 and 2003 respectively.



In 2004, the operating deficit declined to \$235,000 primarily due to billing process enhancements. A summary of the operating deficits for 2001 to 2004 is illustrated in the graph above. The Division's revenues and expenditures for 2001 to 2004 are summarized in Appendix 3.

Maintenance and repair work performed at City garages are billed to user departments based on actual hours at a standard hourly labour rate, with the exception of preventive maintenance for light vehicles, which is billed based on a standard rate of one hour. Parts are charged at cost plus a 10 percent administration charge. For maintenance or repair work referred to private repair shops, charges are billed to Fleet Services and recovered from user departments at cost.

The major contributing factor for the Division's operating deficit is the understatement of the standard hourly labour rate used to bill user departments for maintenance and repairs performed by Fleet Services. The standard hourly labour rate used by Fleet Services is calculated based on total available billable hours, which represent total paid hours less statutory holidays, vacation, illness and training. However, no allowance is provided for other non-billable hours such as meetings, clean-up or general downtime. This results in a standard hourly labour rate calculated on the assumption that total available billable hours will be billed, or a 100 percent productivity rate. This is not reasonable. Consequently, the standard hourly labour rate is understated, which results in less than full cost recovery.

A recognized industry benchmark provided by the American Public Works Association is a productivity rate of between 70 and 80 percent, representing estimated billable hours in relation to total available billable hours. In 2003, Fleet Services' actual billed hours was 82 percent of total available billable hours, which is higher than industry standards. However, Fleet Services' standard hourly labour rate of \$63.96 is lower than the industry standard, which averages around \$82.50. At 80 percent productivity rate, a standard hourly labour rate of \$80-\$83 would have been required to achieve full cost recovery.

Using Fleet Services' standard hourly labour rate and actual billed hours for 2003, only \$9.3 million would have been recovered, or a shortfall of approximately \$404,000 in actual salary costs alone.

Recommendation:

- 12. The Deputy City Manager and Chief Financial Officer modify the calculation of the standard hourly labour rate used to bill user departments for services performed at City garages, in order to ensure that full-cost recovery is achieved, as directed by Council.**

D. USE OF PRIVATE REPAIR SHOPS

D.1. Criteria for Using Private Repair Shops Should Be Established

Generally, maintenance and repair work on City fleet is performed by staff at City-operated maintenance garages. Specialized jobs such as engine overhaul or emission testing are referred to private repair shops under an agreement. General repairs may also be referred to private repair shops if the work cannot be accommodated at the City garage on a timely basis. Decisions are made at the discretion of the garage supervisor. However, there are no criteria established to determine when repairs should be referred to a private repair shop.

Fleet service decisions are often motivated by service delivery at any expense. In some cases, repairs are referred to private repair shops at higher costs than the City garage would charge. No documentation is required to support referring general repairs to private repair shops. Therefore, it is difficult to assess the rationale for referring general repairs to private repair shops that charge a higher rate. Established criteria should be developed for determining when general repairs are referred to private repair shops in order to ensure outsourcing decisions are cost-effective and consistent.

D.2. Use of Preferred Vendors Should Be Explored

In 2004, approximately \$5.8 million or 26 percent of total maintenance costs pertained to repairs and maintenance performed by private repair shops. Of this amount, approximately \$4 million was spent on work performed by private repair shops without a contract, of which \$2.2 million was paid to several vendors each with activity over \$50,000. Purchasing guidelines require that repetitive purchases from the same supplier be made under contract through a competitive process.

The City has contracts with certain vendors for specific repair services such as vehicle suspension systems, tire repairs, or transmissions for specific equipment. However, there are no contracts for general repairs. We also observed that while contracts were awarded to seven vendors to conduct Drive Clean emission tests, some tests were performed by other vendors without contracts. Fleet Services staff indicated that where repairs are made at another private repair shop, emission tests, if due, would also be performed at the same time rather than taking the vehicle to one of the contracted vendors.

The use of preferred vendors selected through a competitive process should be explored. This would facilitate the referral of jobs to private repair shops and eliminate the time-consuming process of obtaining quotes for repair jobs. The potential also exists for cost savings through negotiated rates.

We also noted that in some cases, the Drive Clean emission tests were performed annually on certain vehicles that only required testing every two years. While the cost of the actual emissions test is not significant, associated downtime costs are incurred for such unnecessary tests. It is important to ensure that work referred to private repair shops are reasonable and not excessive.

D.3. Compliance with Purchasing Policies Needs Strengthening

City policy stipulates that purchases over \$7,500 require a purchase order through the City Purchasing and Materials Management Division. Purchases between \$3,000 and \$7,500 require a departmental purchase order, after obtaining three quotes. In some instances, departmental purchase orders have been split to keep the purchase below the maximum limit for departmental purchase orders (i.e., \$7,500) or below the limit for three quotes (i.e., \$3,000). For some payments over \$3,000, there was no evidence that three quotes were obtained.

Fleet Services staff explained that at times, the cost of a job could not be properly estimated until the problem is fully diagnosed in order to determine the extent of the work required. In such cases, disassembly is required and getting estimates from other garages require reassembly and transporting of the vehicle or equipment to a different garage, which have an associated cost and downtime. Steps should be taken to ensure City purchasing policies are complied with when referring repairs to private repair shops. Fleet Services should work with City Purchasing and Materials Management Division in developing options to facilitate the repair process while maintaining compliance with City purchasing policies.

Recommendations:

- 13. The Deputy City Manager and Chief Financial Officer establish criteria for using private repair shops and procedures to ensure repairs and other fleet-related services are referred to private repair shops accordingly.**

- 14. The Deputy City Manager and Chief Financial Officer in consultation with the Chief Financial Officer and Treasurer, explore the possibility of using preferred vendors selected through a competitive process to provide repair services for City vehicles at negotiated rates.**
- 15. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure payments for work performed by private repair shops are in compliance with Corporate purchasing policies.**

D.4 Random Quality Assurance Inspections of Work Performed Should Be Strengthened

In order to monitor the quality of services provided by private repair shops, Fleet Services in 2003 began conducting random quality assurance inspections of vehicles after service has been provided, including an inspection of the components replaced on the vehicle. Inspections are generally performed at the vehicle's designated garage location and the garage supervisor arranges to have the vehicle delivered for inspection. If a problem is identified, the matter is investigated. In one case, Fleet Services suspended referrals to a particular vendor, when discrepancies were noted during an inspection.

There is, however, no documentation on inspections performed and the results of such inspections unless a problem is identified. In order to assess the effectiveness of the inspection program, criteria should be developed related to when and how inspections are conducted. Criteria should be consistently applied to all City-operated garages and the results of quality assurance inspections reviewed.

Recommendation:

16. The Deputy City Manager and Chief Financial Officer take necessary steps to:

- (a) develop criteria for conducting random quality assurance inspections of vehicles serviced by private repair shops, including the frequency, timing and nature of the inspection;**
- (b) develop a standard form to document the inspection and retain documentation for review by supervisory staff; and**
- (c) evaluate inspection results, taking appropriate corrective action, where necessary, in order to ensure the effectiveness of the program.**

E. WARRANTY REPAIRS

E.1. Criteria for Warranty Repairs Need to Be Established

Fleet Services refers major warranty repairs to the equipment manufacturer and performs minor warranty repairs internally. According to management, downtime costs associated with transporting vehicles to the manufacturer for minor warranty repairs often exceed internal repair costs. However, no established criteria exist to determine when a warranty repair should be referred to the manufacturer or performed internally.

E.2. Warranty Reimbursements from Manufacturers Need to Be Formalized

Fleet Services has informal arrangements with certain manufacturers allowing reimbursement for performing warranty repairs in-house. In one case, the manufacturer is willing to reimburse the City at an hourly labour rate of \$45.00, which is not adequate to recover direct labour cost. Warranty reimbursements should be formalized with manufacturers, which provide for full recovery of direct labour costs related to in-house warranty repairs.

E.3. Warranty Information Needs Tracking in the M4 System

Warranties on vehicles and equipment vary by manufacturer and among several classes of vehicles. Although the M4 Fleet Management Information System has the capability to track warranties, this function is not utilized. Warranty information is not available in the system, therefore, garage staff must rely on institutional knowledge to determine whether a repair is covered under warranty.

Parts covered under warranty are obtained at no cost. However, labour costs are not recovered unless authorized by the manufacturer. There is also no provision in the system to identify warranty repairs performed internally making it difficult to determine the level of warranty repairs done at City costs. Such costs are charged back to the user departments.

Recommendation:

- 17. The Deputy City Manager and Chief Financial Officer review practices with respect to warranty repairs and take appropriate steps to:**
 - (a) establish criteria for determining when warranty repairs should be referred to the manufacturer or performed internally;**
 - (b) utilize the M4 Fleet Management Information System for recording warranty information and tracking warranty repairs;**
 - (c) ensure eligible costs for warranty repairs are recovered from the manufacturer; and**
 - (d) formalize warranty reimbursements from manufacturers when in-house warranty repairs are made, ensuring full recovery of direct labour costs.**

F. M4 FLEET MANAGEMENT INFORMATION SYSTEM

In July 1999, Council approved the adoption of the M4 Fleet Management Information System (M4 System) as the Corporate fleet information system, as recommended in the 1998 KPMG LLP Fleet Review. The KPMG LLP Fleet Review indicated that the M4 System would provide the necessary platform for fleet-related management control systems and support the key initiatives recommended in that review. The M4 System provides support for a fleet-related charge-back billing system, employee and garage productivity monitoring, standard time monitoring, fleet utilization reporting and maintenance scheduling.

The M4 System became operational on January 1, 2000. The implementation of the M4 System for Fleet Services was undertaken as part of the Y2K implementation project. The system was also subsequently implemented for Emergency Medical Services and Fire Services.

F.1. Reliability of Information Needs Improvement

Fleet Services uses the M4 Fleet Management Information System for tracking vehicle maintenance and repair work on City vehicles through a work order system. Each garage creates a work order in the M4 System, which automatically assigns a sequential work order number. The M4 system uses job codes to identify the type of work performed and prompts the user to enter key information such as unit number, odometer or hour meter reading and job code.

Procedures in place to ensure odometer or hour meter readings are accurately recorded in the system need strengthening. This information is essential in measuring distance travelled or hours of operation and is used in equipment utilization analysis. This information is vital for significant fleet-related decisions related to maintenance and repairs, replacement, disposal or re-assignment of equipment. Although garage staff is required to write odometer or hour meter readings on the work order after physical inspection of the vehicle, the correct information is not always reflected in the system. The system could be enhanced to ensure that correct mileage or hour meter information is recorded in the M4 System before a work order is completed.

Fleet Services has since installed system prompts requiring staff to enter the required information. However, there is still a need to develop system controls to check the validity of information.

Recommendation:

- 18. The Deputy City Manager and Chief Financial Officer take necessary steps to ensure that odometer and hour meter readings are accurately recorded in the M4 Fleet Management Information System by garage staff prior to work order close-out.**

F.2. Critical M4 System Management Reports Need to Be Identified and Utilized

The M4 Fleet Management Information System is used for work order processing and billing, preventive maintenance scheduling, labour management, asset management, parts inventory management and fleet replacement modelling. The system has capabilities to generate various management reports that could assist management in evaluating performance. As discussed in other relevant sections of the report, certain features of the system are not fully utilized and specific management reports need to be generated to facilitate the review and monitoring of fleet performance. It is important that Fleet Services staff identify standard management reports that should be generated on a regular basis, the purpose of such reports and the staff responsible for their review and appropriate follow-up action.

Recommendation:

- 19. The Deputy City Manager and Chief Financial Officer take appropriate steps to identify standard management reports that should be generated from the M4 Fleet Management Information System, the purpose and frequency of such reports and the staff responsible for their review and appropriate follow-up action.**

F.3. Adequacy of Technical Support Needs Review

The Corporate application of the M4 Fleet Management Information System is the responsibility of Corporate Information and Technology, with staff assigned to Fleet Services responsible for day-to-day operation of the system. We observed that heavy reliance is placed on one individual to handle the day-to-day operation of the system with limited backup. Adequately trained backup staff should be available in order to ensure continuity of operations.

Recommendation:

- 20. The Deputy City Manager and Chief Financial Officer evaluate resources required to provide adequate technical support to the M4 Fleet Management Information System and ensure sufficient City staff are adequately trained to provide necessary technical support in the day-to-day operational use of the system.**

F.4 M4 Fleet System Interface with SAP System Should Be Enhanced

All fleet-related costs, both internal and external, are captured in the M4 Fleet Management Information System from various sources. This information is used for billing to user departments. Internal charges for both labour and parts are posted directly into the M4 System through the work order system.

External charges for work performed by private repair shops are captured in the City's SAP Financial System. This information is entered into the M4 System through a system interface using the work order number. Unmatched data, resulting primarily from invoices related to closed work orders, require manual input into the M4 System.

We observed a significant number of manual adjustments and sales tax was not accounted for properly, resulting in the understatement of external charges. This results in a corresponding understatement of cost recovery from user departments, which was a contributing factor to the Fleet Services' operating deficit referred to earlier. Fleet Services staff has since taken steps to correct these issues. The closing of work orders has been extended to allow processing of late invoices and minimize manual entries.

Recommendation:

- 21. The Deputy City Manager and Chief Financial Officer review the possibility of automating the subsequent posting of unmatched data to the M4 System.**

G. PARTS INVENTORY

G.1. Consolidation of Parts Inventory Need Strengthening

The City's fleet consists of a diverse and wide array of vehicles and equipment requiring extensive parts supply. In 2004, the City spent approximately \$4.6 million for parts used in vehicles and equipment serviced at City-operated garages, including stock items from various City Stores and non-stock items purchased directly from suppliers. An additional \$900,000 was spent on tires, under contract with an external supplier. Parts costs related to repairs referred to private repair shops amounted to approximately \$1.5 million.

Control over automotive parts supply is not centralized. Fleet Services operates a central automotive parts warehouse at 843 Eastern Avenue, while the Purchasing and Materials Management Division manages eight City Stores, five of which supply automotive parts to City garages. For inventory management, Fleet Services uses the M4 Fleet Management Information System, while the Purchasing and Materials Management Division uses SAP. Information on parts supplied from warehouses managed by the Purchasing and Materials Management Division is manually entered into the M4 System, which is time-consuming and prone to error. This process should be automated.

G.2. Parts Inventory Controls Need Strengthening

Parts inventory at the central warehouse operated by Fleet Services at 843 Eastern Avenue amounted to approximately \$597,000 as at December 31, 2004, with an annual volume of \$1.2 million. This amount does not include non-stock items charged directly to a work order. There is a need to improve controls over inventory management, particularly with respect to the following:

- The inventory listing contained over 2,400 inventory items, including numerous items valued less than \$5.00. While there is a need to control their issuance, the individual tracking of such items is not efficient.
- A feature in the M4 System for tracking inventory usage and re-order levels is not fully utilized. Parts inventory included approximately \$91,000 of items with no activity during the year and considered obsolete.
- Bulk items such as oils and lubricants purchased in large volumes do not have metered dispensing equipment to properly track usage.
- Although a physical inventory count is conducted annually at the end of the year, no periodic counts are taken during the year. This results in a risk of loss without detection.

Satellite garages, not located near a City Store, generally maintain a limited amount of automotive parts supply. We observed one satellite garage maintained a parts inventory of over \$10,000. We also observed items were not securely stored and procedures to record and monitor the use of parts were inadequate, resulting in risk of loss without being detected. Standard policies and procedures should be established with respect to storage, use and recording of parts at garages maintaining their own parts supply, ensuring that parts are securely stored, used only for authorized City vehicles and properly accounted for.

G.3. Procurement of Parts Needs Improvement

The City has contracts with several suppliers and manufacturers for various vehicle and equipment parts. Generally, non-stock items are ordered first from vendors with existing contracts and, if not available, from other external suppliers through the normal procurement process. However, a number of inventory items are obtained from various suppliers without a contract. Issuing contracts through a competitive process for frequently used items facilitates the procurement process and provides the opportunity for savings through economies of scale.

G.4. New Developments Require Further Consideration

It is anticipated that two pending developments related to the issuance of a request for proposal by Fleet Services for the supply of parts on a consignment basis and a Corporate warehouse review to be undertaken would have significant impact on parts supply.

Fleet Services is in the process of issuing a request for proposal for the supply of vehicle and equipment parts on a consignment basis. The consignment method is intended to reduce downtime and parts costs by increasing parts on hand while eliminating unnecessary inventory costs. The draft request for proposal requires that the vendor provide up to \$2 million of inventory on a consignment basis at the four main garages, with 70 percent to be warehoused at 843 Eastern Avenue. It does not provide for the management of these warehouses.

Fleet Services currently manages only one warehouse, while the remaining three are managed by the Purchasing and Materials Management Division. As well, the proposed request for proposal does not address the disposition of existing inventory.

While the proposed arrangement may result in savings and reduced downtime, potential additional costs may be incurred for staffing, warehouse re-configuration or opportunity costs for increased warehouse space requirements. Costs and benefits of the proposed arrangement should be quantified and evaluated before finalizing the agreement.

There is also a pending Corporate warehouse review undertaken as part of the rationalization of City Stores, in response to a request arising from the 2003 budget process and our 2003 Procurement Process Review. The Corporate warehouse review covers all City Stores including those that currently supply parts to City garages.

Recommendations:

22. The City Manager ensure that the pending Corporate warehouse review undertaken as part of the rationalization of City Stores, and as requested by the Budget Advisory Committee, includes:

- (a) an evaluation of centralizing control of all automotive parts inventory:**
 - (i) under Fleet Services or Purchasing and Materials Management; and**
 - (ii) using one management information system for tracking parts inventory using either the M4 Fleet Management Information System or SAP; and**
- (b) the establishment of centralized policies and procedures for inventory management at all automotive parts warehouses, ensuring adequate controls are in place, including:**
 - (i) establishing criteria for items to be included in inventory;**
 - (ii) utilizing available system features for tracking inventory usage and re-order levels;**
 - (iii) conducting periodic surprise counts of items over a specified value;**
 - (iv) using metered dispensing equipment for bulk items in large volumes such as oils and lubricants; and**
 - (v) disposing obsolete items on a timely basis.**

- 23. The Deputy City Manager and Chief Financial Officer review the proposed parts consignment model prior to finalizing any agreement, with a view to:**
- (a) evaluating all costs and benefits including potential additional costs for staffing, warehouse re-configuration and opportunity costs for increased warehouse space requirements;**
 - (b) determining the proper disposition of existing inventory; and**
 - (c) ensuring that control of warehouses maintaining inventory is centralized under one management responsibility.**
- 24. The Deputy City Manager and Chief Financial Officer establish policies and procedures regarding storage and inventory record-keeping at satellite garages, ensuring parts are securely stored, used only for authorized City vehicles and properly accounted for.**

G.5. Control of Shop Tools and Equipment Inventory Requires Strengthening

Each City-operated garage carries a wide array of shop tools and equipment used to carry out maintenance and repair work of City vehicles. Some of these items have significant value and adequate controls are required to ensure equipment is safely stored and adequately maintained and accounted for. We observed that listings of shop equipment at various garages are not up-to-date and lack key information such as identification number and value. Also, there are no physical inventory counts conducted of shop tools and equipment. Maintaining a complete up-to-date detailed listing of shop tools and equipment and conducting periodic physical inventory counts helps ensure that City assets are safeguarded, as well as provide documentation to support potential insurance claims in case of loss.

Recommendation:

- 25. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure an up-to-date detailed inventory listing of shop tools and equipment over a specified amount is maintained at each City-operated garage, providing that:**

- (a) such listing include identification number, value of the items, details of purchase (i.e., date, supplier, invoice number); and**
- (b) a physical inventory count of shop tools and equipment be conducted periodically, discrepancies investigated and adjustments made to records only after review and approval by an authorized official.**

H. RELEVANCE TO OTHER ORGANIZATIONS

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 resulting from amalgamation. The scope of the study included the entire fleet of the new City of Toronto excluding Fire Services and Emergency Medical Services, Toronto Police Service and other Agencies, Boards and Commissions, such as the Toronto Transit Commission, Toronto Library Board, Toronto Zoo and Exhibition Place. The recommendations contained in this report may have applicability to these other organizations not included in the review and, as such, this report should be forwarded to them for their review, consideration and reporting back to the Audit Committee.

Recommendation:

- 26. City Council direct that this report be forwarded to those City organizations who separately manage their own fleet operations, including Emergency Medical Services, Fire Services, Toronto Police Service, Toronto Library Board, Toronto Zoo and Exhibition Place, in order to ensure that issues raised are addressed by them where appropriate. These organizations be required to report back to the first 2006 meeting of the Audit Committee in connection with the results of their review, specifically addressing:**
- (a) garage operations;**
 - (b) maintenance and repairs by private repair shops;**
 - (c) fleet management information systems; and**
 - (d) parts inventory controls.**

SUMMARY OF RECOMMENDATIONS

Fleet Operations Review - Phase One

Auditor General's Recommendations:

- (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 co-ordinated 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.
- (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.

SUMMARY OF RECOMMENDATIONS

Fleet Operations Review - Phase One

Audit Committee's Recommendations:

- (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.
- (14) The Commissioner of Corporate Services report to the Administration Committee on Green Fleet criteria for all vehicles purchased by the City.

**MANAGEMENT RESPONSE AND STATUS UPDATE #2
MARCH 2005**

Fleet Operations Review - Phase One

Phase One Recommendation	Management Response	Work Plan	Status
<p>1.) City Council direct that the report (November 18, 2003) from the Auditor General be forwarded to those City organisations 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 organisations 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> <ul style="list-style-type: none"> (a) fuel site use and management, including: <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; (b) vehicle procurement, utilization and disposal activities; (c) fleet safety activities; and (d) initiatives to minimize the environmental impact of respective fleets; 	<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>	<p>Task A: Utilize the Fleet Services Steering Committee to disseminate information to City organizations managing their own fuel sites including Toronto Police Service, Emergency Medical Services and Fire Service.</p> <p>FEB 04 – JUN 04</p>	<p>Complete - As reported to July 13, 2004 meeting of Audit Committee</p>

Phase One Recommendation	Management Response	Work Plan	Status
<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, 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 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>Task A: Review Fleet Services Future Plan (2001) for deliverables, timelines and expected completion dates considering their relevance going forward.</p> <p>Task B: Review Action Plans previously approved by Council and not included in Future Plan (2001) e.g. Parts consignment, Taxi inspections, etc.</p> <p>Task C: Review status of implementation of Fleet Services Future Plan (2001) and any other Action Plans approved by Council and produce an itemized list of deliverables. Each item should be labelled as completed, in-progress or no longer relevant.</p> <p>Task D: Prepare Status Report to the September 2004 meeting of the Administration Committee.</p> <p>FEB 04 – AUG 04</p>	<p>Ongoing</p> <p>The Fleet Services Future Plan (2001) is being reviewed against targets and timeframes. Many of the recommendations from the Auditor General's Phase One Review have crossover implications to the Future Plan (e.g. Reserve and Fuel Review). Thus, the Future Plan update has been temporarily delayed to capture the impacts resulting from the progress made in other areas of the Phase One Review. Notwithstanding, progress is being made towards the implementation of the strategies and actions described in the Future Plan (2001). Notably, 31 of the 36 actions have been completed as of March 2005. A further 5 of the actions are well underway and are expected to continue into the future as they are of an ongoing nature e.g. Benchmarking services, expanded fuel review, etc.</p> <p>In addition, new directives from Council are being included in the Future Plan update as outlined in the Auditor General's recommendation 2. For example, more than \$250,000 in savings is expected in 2005 by contracting in mechanical inspections of licensed vehicles by the City of Toronto under the provisions of Chapter 545, Licensing of the Municipal Code. As planned, the program was fully implemented January 1, 2005 on schedule.</p>

Phase One Recommendation	Management Response	Work Plan	Status
			It is expected that extending the requirement to report to the April 2005 meeting of Administration Committee will enable staff to complete the Future Plan update while capturing all of the crossover implications from the Auditor General's Phase One Review.
<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> <p>(a) evaluating existing fuel sites, considering such factors as the age, size, type, volume, utilisation, 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</p>	<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> <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) Regulatory and compliance review and inventory of all fuel sites</p> <p>(ii) Rationalise fuel site locations and operations</p> <p>(iii) Address needs for environmental resolutions and clean-up</p> <p>(iv) Control and management of fuel site operations</p> <p>OCT 04 – JUN 05</p>	<p>Ongoing – On schedule for completion and reporting to June 2005 Administration Committee</p> <p>The staff report to the July 13, 2004 meeting of Audit Committee titled, Status Update and Work plan Fleet Operation Review – Phase One (June 29, 2004) from the Commissioner of Corporate Services identified four main phases for the expanded fuel site review and their respective delivery periods.</p> <p>Phase 1 of the fuel site work plan has been completed and all Technical Standards and Safety Authority inspections for the 83 fuel sites included in the review has been completed as of December 2004. Work on Phase 2 of the work plan to rationalise fuel site locations and operations is proceeding with input from the affected program areas.</p>

Phase One Recommendation	Management Response	Work Plan	Status
<p>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 reconciliation's are properly completed, discrepancies where identified are investigated and corrective action taken on a timely basis, and that all such reconciliation's 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</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> <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 its per transaction fuel capacity.</p>		

Phase One Recommendation	Management Response	Work Plan	Status
<p>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 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;</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; and</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>Fleet Services has taken action to eliminate the limited number of commercial cards in use, where operationally feasible. However, there are unavoidable exceptions 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>		

Phase One Recommendation	Management Response	Work Plan	Status
<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>Task A: Review the current departmental processes being used to acquire new vehicles and equipment.</p> <p>Task B: Develop a suitable business case template, policy and procedure to be used by all departments considering usage, purpose and existing vehicles to be replaced. The template, policy and procedure be harmonized with departmental purchase order, capital budget process and manufacturer build-out dates.</p> <p>Task C: Pilot test the template, policy and procedure for implementation in September 2004.</p> <p>Task D: Evaluate the template, policy and procedure and revise as necessary based on departmental feedback and report out the findings with recommendations for further action.</p> <p>FEB 04 – DEC 04</p>	<p>Completed November 2004</p> <p>A policy and procedure to support the business case for all vehicle and equipment acquisitions was circulated to The Fleet Services Steering Committee at its meeting of November 1, 2004 (see Appendix B). All vehicle and equipment replacements are subject to the following procedure:</p> <p>(i) User department submits a list of vehicles/equipment annually due for replacement based on their level of in-year reserve contributions. This list is the primary replacement list and is the first level of justification for replacement.</p> <p>(ii) The list is reviewed by Fleet Services to ensure each unit meets the replacement policy guidelines set forth for the specific classification. For example, 8 years or 160,000 kms for light duty vehicles. If the replacement guidelines are not met, the user department may remove the vehicle from the replacement list or must provide additional written justification to support the replacement.</p> <p>(iii) A 'Vehicle Inspection Form' (see Appendix C) is completed by a certified Fleet Services Technician for <u>every</u> vehicle/equipment on the replacement list.</p>

Phase One Recommendation	Management Response	Work Plan	Status
			<p>(iv) Where the condition assessment identifies that the vehicle/equipment life can be extended despite meeting the replacement criteria, the replacement is deferred for future consideration.</p> <p>Only when all of the applicable criteria have been met is a replacement acquisition issued.</p>
<p>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.</p>	<p>Agreed. 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>	<p>Task A: Review data available through M4 database and other files that could be used to generate quarterly usage reports based on odometer readings as one indicator of usage patterns.</p> <p>Task B: Work with technical staff to develop programs that use odometer readings to project usage patterns and compare against appropriate benchmarks e.g. Vehicle Usage Exception Report</p> <p>Task C: Provide departmental user training on usage reports through Fleet Services Steering Committee.</p> <p>Task D: Evaluate effectiveness of usage reports with departmental clients and report back on the findings with recommendations.</p> <p>MAR 04 – NOV 04</p>	<p>Completed November 2004</p> <p>A detailed list of vehicles projected to travel less than 7,500 km/year has been completed and distributed to departmental clients. Departmental clients are required to review the listing for accuracy and provide a rationale to Fleet Services for any vehicles travelling less than 7,500 km/year. Any vehicles without sufficient justification will be removed from service and either disposed of or re-assigned to another division where justified.</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</p>	<p>Agreed. 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</p>	<p>Task A: Review the current departmental processes being used to dispose of vehicles and equipment.</p> <p>Task B: Develop a suitable business case template, policy and</p>	<p>Completed November 2004</p> <p>Recommendation 6 is closely related to recommendation 4 regarding acquisitions. A new policy and procedure to support the business case</p>

Phase One Recommendation	Management Response	Work Plan	Status
<p>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>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>procedure to be used by all departments considering usage, purpose and existing vehicles to be replaced. The template, policy and procedure be harmonized with departmental purchase order, capital budget process and manufacturer build-out dates.</p> <p>Task C: Pilot the template, policy and procedure for September 2004.</p> <p>Task D: Evaluate the template, policy and procedure and revise as necessary based on departmental feedback and report out the findings with recommendations for further action.</p> <p>FEB 04 – DEC 04</p>	<p>for all vehicle and equipment acquisitions was circulated to The Fleet Services Steering Committee at its meeting of November 1, 2004. The existing “Vehicle Inspection Form” (see Appendix C) introduced in 2002 will serve as the business case template for disposal and work together with the new policy and procedure for acquisitions. The vehicle inspection form is completed by a licensed Fleet technician and gives the user valuable information on the future life of the vehicle. This form is utilized to identify opportunities as follows:</p> <ul style="list-style-type: none"> (i) Retain and re-deploy the vehicle to another temporary assignment. (ii) Retain the vehicle to offset seasonal demands. For example, ice resurfacers may be retained over the winter to address mechanical failures, instead of selling the unit in the Fall auction, thereby maintaining service delivery. (iii) Retain the vehicle and identify another vehicle that may be of the same year or older that would require more repairs than the vehicles identified for disposal. <p>Ensure the replacement of vehicles is consistent with the vehicle’s expected lifecycle with exceptions such as vehicles used at transfer stations, landfill sites or 24/7 operations where extreme operating conditions can decrease the expected lifecycle.</p>

Phase One Recommendation	Management Response	Work Plan	Status
<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 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.</p> <p>An analysis of lease financing for light duty vehicles (e.g., pick-up trucks) was conducted in 2000, and a request for proposals (RFP) was issued. Subsequently, staff recommended against 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 higher financing rates when compared to the City’s rate and additional fees including end of lease penalties and lease administration fees. However, City Council referred the matter back to the CFO.</p>	<p>Task A: Work with Finance - Treasury to determine options for a long-term strategy for operating contributions to vehicle and equipment and replacement reserve including rental and debt financing models.</p> <p>Task B: Develop staff report with Finance – Treasury.</p> <p>Task C: Report out the options available with cost implications.</p> <p>FEB 04 – MAR 05</p>	<p>Complete–February 2005</p> <p>The Commissioner of Corporate Services and the Chief Financial Officer and Treasurer submitted a joint-staff report to the September 15, 2004 meeting of Policy and Finance Committee titled, Contributions to the Vehicle and Equipment Replacement Reserve (September 13, 2004). The staff report recommended a strategy that starting in 2005, all programs begin contributions to vehicle and equipment reserves based on the following calculation:</p> <p><u>Future replacement cost less end of life salvage value</u> Projected useful life in months</p> <p>In addition, it was also recommended that Fleet Services administer the program, set-up an internal chargeback system and establish a cost centre under the Stabilization Reserve Fund. The staff report was forwarded to Budget Advisory Committee as described in recommendation 6 of the staff report.</p> <p>Budget Advisory Committee received the staff report titled, Contributions to the Vehicle and Equipment Replacement Reserve (September 13, 2004), at its meeting of November 18, 2004. The Budget Chair made a motion to consider the</p>

Phase One Recommendation	Management Response	Work Plan	Status
			recommendations at the time of the 2005 budget presentations. The strategy was adopted by City Council in February 2005 and will go into effect starting in 2006.
<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; and that 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>Task A: Review data that exists in M4 and other databases that could be used to determine fuel efficiency e.g. Litres/100 kilometres driven</p> <p>Task B: Work with technical staff to develop fuel efficiency reports, beginning with the light-duty fleet.</p> <p>Task C: Provide interdepartmental user training through Fleet Services Steering Committee.</p> <p>MAR 04 – SEP 04</p>	<p>Ongoing</p> <p>Fleet Services is a national leader on green fleet initiatives and continues to make progress on the establishment of fleet emission reductions and increased fuel efficiency. For example, starting in 2005 Fleet begins implementing its Green Fleet Transition Plan to reduce the negative environmental impacts of its operations. Included in the Green Fleet Transition Plan is the expanded use of biodiesel fuel. Biodiesel is a renewable fuel that can reduce the emissions of carbon dioxide, sulphur dioxide, carbon monoxide and particulate matter over conventional, petroleum diesel. With full implementation, the Green Fleet Transition Plan is estimated to reduce equivalent carbon dioxide by 15 – 23 percent. Fleet Services will report out the actual emissions reduced once a biodiesel supplier has been selected for 2005 and the program is implemented. At its meeting of November 30, December 1 – 2, 2004, Toronto City Council adopted the Administration Committee's Report 9, Clause 12 regarding the City's bulk fuel contract for 2005.</p>

Phase One Recommendation	Management Response	Work Plan	Status
			<p>By awarding the coloured diesel (for off-road diesel) portion of the contract to Suncor, Council opted to pay a premium of 1.9 per cent (\$32,048.64) to reduce sulphur dioxide emissions by 86 per cent (13 tonnes) relative to the lowest price option. This decision continues a fleet emissions reduction standard that has influenced the work of the GTA Clean Air Council and its members to reduce fleet emissions where possible.</p> <p>The third important initiative being undertaken to establish fleet emission and fuel efficiency standards is related to the Ministry's Drive Clean Emissions Program. The Ministry's emissions test measures HC, CO, Nox and opacity where applicable against standards determined by vehicle weight and commercial status. All City vehicles are maintained to meet the current program requirements. Each emission pass certificate number is recorded with the Ministry of Transportation and Drive Clean.</p> <p>Further work on fleet emission and fuel efficiency standards is being pursued through the work Fleet is doing on its Future Plan update as described in the status update provided for recommendation 2.</p>

Phase One Recommendation	Management Response	Work Plan	Status
<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;</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>Task A: Review existing policies e.g. WES and City of Ottawa and any other relevant examples that can be found using a literature search.</p> <p>Task B: Develop a generic City of Toronto vehicle take-home policy (guideline) for review and consideration by departmental clients at Fleet Services Steering Committee recognizing that, departmental needs and authorization will ultimately determine allocation of equipment and staff.</p> <p>Task C: Report out findings on the use of City vehicle take-home policy and provide recommendations with next status report.</p> <p>MAR 04 – SEP 04</p>	<p>Complete – September 2004</p> <p>A ‘Vehicle take-home’ policy currently in place with Works and Emergency Services was distributed to all divisional representatives through the Fleet Services Steering Committee on June 7, 2004 (see Appendix D). This policy is now being used on a Corporate-wide basis and will be reviewed as needed to meet operational requirements.</p>
<p>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 the implementation, and specific timelines, of the recommendations contained in the report (November 18, 2003) from the Auditor General;</p>	<p>Agreed.</p> <p>A status report and work plan for implementation will be prepared for the July 2004 Audit Committee.</p>	<p>Task A: Review recommendations as amended by City Council.</p> <p>Task B: Develop Work plan. Appoint Project Manager to manage recommendation 3.</p> <p>Task C: Provide Status report for July 13/04 meeting of Audit Committee.</p> <p>DEC 03 – JUN 04</p>	<p>Ongoing – The next report due in July 2005</p> <p>The first status report was received at the July 13, 2004 meeting of Audit Committee as scheduled. The second of such reports which is the subject of this staff report is being submitted to the April 5, 2005 meeting of the Audit Committee.</p>
<p>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</p>	<p>Agreed</p>	<p>Task A: Identify deliverables against timelines.</p> <p>Task B: Review Work plan with Fleet Services Steering Committee.</p> <p>FEB 04 – JUL 04</p>	<p>Complete - As reported at the July 13, 2004 meeting of the Audit Committee</p>

Phase One Recommendation	Management Response	Work Plan	Status
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 General's recommendations;	Agreed	<p>Task A: Inform Fleet Services Steering Committee of their respective role(s) in the implementation of the recommendations and specifically, recommendation no.1.</p> <p>FEB 04 – JUN 04</p>	Complete - As reported at the July 13, 2004 meeting of the Audit Committee
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;	Agreed	<p>Task A: Follow-through the Green Fleet Transition Plan (2004) to Administration Committee (April 29, 2004), Policy and Finance Committee (May 6, 2004) and City Council (May 18, 2004).</p> <p>Task B: Disseminate the Green Fleet Transition Plan (2004) to A, B, Cs regarding alternative energy use, etc.</p> <p>Task C: Work with Legal Services to develop a contract that provides a legal recourse and risk management options for products tested through the Technology Testing Program at the City.</p> <p>APR 04 – JUL 04</p>	Complete - As reported at the July 13, 2004 meeting of the Audit Committee
14.) the Commissioner of Corporate Services report to the Administration Committee on Green Fleet criteria for all vehicles purchased by the City.	Agreed	<p>Task A: Use the Green Fleet Transition Plan (2004) and Technology Testing Program Report (2003) to determine green fleet criteria for vehicles and equipment purchased by the City on an ongoing basis.</p>	Complete - As reported at the July 13, 2004 meeting of the Audit Committee

**MANAGEMENT RESPONSE AND STATUS UPDATE #2
MARCH 2005**

COUNCIL RECOMMENDATIONS

Phase One Recommendation	Management Response	Work Plan	Status
<p><i>One. The supplementary report dated February 27, 2004, from the Auditor General, be referred to the Audit Committee and the Auditor General be requested to submit a future report to the Audit Committee providing further information regarding the lease cost continuing to escalate at the same time as the funding for the vehicles replacement program has been increased substantially; and</i></p>	<p>Referred to A.G.</p>	<p>Not applicable.</p>	<p>To be provided by the Auditor General.</p>
<p><i>Two. The Commissioner of Works and Emergency Services be requested to submit a report to the Audit Committee on:</i></p> <p><i>(a) the termination of 'home use' vehicles;</i></p> <p><i>(b) the use of credit cards to refuel City vehicles at gas stations inside the boundaries of the City of Toronto; and the repairing of City vehicles by private repair shops"</i></p>	<p>Referred to WES</p>	<p>Not applicable.</p>	<p>To be provided by the Commissioner of WES.</p>

Source:

Appendix A: Fleet Operation Review – Phase One (Status Update #2), March 14, 2005. Report from then Commissioner, Corporate Services, to the Audit Committee meeting of April 5, 2005.

**SUMMARY OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31**

Fleet Services Division

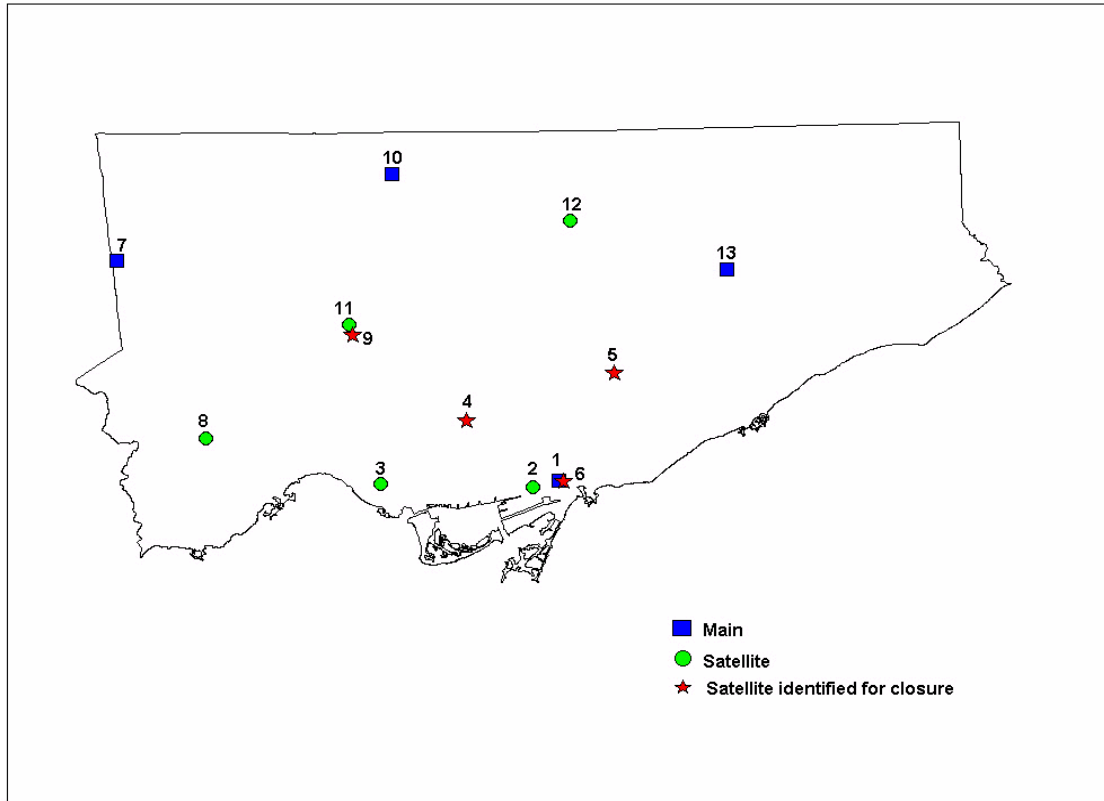
(\$ in thousands)

	2001		2002		2003		2004	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<u>Expenditure</u>								
Fleet Maintenance	\$22,240	\$23,011	\$21,439	\$20,222	\$20,783	\$22,124	\$20,421	\$22,689
Fuel Operations	6,970	6,474	7,220	5,368	6,719	6,746	6,450	7,314
Fleet Management	2,534	2,622	2,891	2,807	2,832	2,807	2,866	3,014
Fleet Safety	715	724	745	642	962	809	985	865
Total Expenditure	32,459	32,831	32,295	29,039	31,296	32,486	30,722	33,882
<u>Revenue</u>								
Fleet Maintenance	22,240	22,379	21,439	19,028	20,783	19,910	20,421	22,240
Fuel Operations	6,970	6,347	7,220	5,424	6,719	6,630	6,450	7,560
Fleet Management	2,534	2,569	2,891	2,877	2,832	2,822	2,866	2,983
Fleet Safety	715	641	745	697	962	807	985	864
Total Revenue	32,459	31,936	32,295	28,026	31,296	30,169	30,722	33,647
<u>Net Expenditure (Revenue)</u>								
Fleet Maintenance	-	632	-	1,194	-	2,214	-	449
Fuel Operations	-	127	-	(56)	-	116	-	(246)
Fleet Management	-	53	-	(70)	-	(15)	-	31
Fleet Safety	-	83	-	(55)	-	2	-	1
Net Expenditure	-	\$895	-	\$1,013	-	\$2,317	-	\$235

Source:
SAP Variance Reports

**CITY-OPERATED MAINTENANCE LOCATIONS – 2004
SITE LOCATION MAP**

(Excluding Toronto Police Service, Emergency Medical Services and Fire Services)



South District

1. 843 Eastern Avenue (Main)
2. 50 Booth Avenue
3. 1116 King Street West
4. C 1008 Yonge Street
5. C 30 Northline Road
6. C 875 Eastern Avenue - Groundskeeping

West District

7. 150 Disco Road (Main)
8. 320 Bering Avenue
9. C 1401 Castlefield Avenue

North/East District

10. 1026 Finch Avenue West (Main)
11. 86 Ingram Drive
12. 2751 Old Leslie Street - Oriole Garage
13. 1050 Ellesmere Road (Main)

C – Identified for closure

APPENDIX 5

**VEHICLE AND EQUIPMENT RENTAL COSTS and
CONTRIBUTIONS TO VEHICLE AND EQUIPMENT REPLACEMENT RESERVE
2001 to 2004**

(\$ in Thousands)

Department	Vehicle and Equipment Rental Costs				Vehicle & Equipment Reserve Contributions			
	2001	2002	2003	2004	2001	2002	2003	2004
WES	\$1,559	\$1,346	\$2,533	\$1,791	\$7,058	\$7,638	\$11,392	\$10,983
EDCT	794	981	1,142	1,104	2,536	3,321	5,586	5,586
CS	128	69	100	47	1,678	955	917	1,026
CNS	144	97	171	152	136	159	252	252
UDS	33	8	48	16	50	110	252	252
Finance	12	11	19	15	29	39	86	107
Corporate Programs	20	63	27	21				
	\$2,690	\$2,575	\$4,040	\$3,146	\$11,487	\$12,222	\$18,485	\$18,206

Source:

SAP Variance Reports, Accounting Services

Legend:

- WES – Works and Emergency Services
- EDCT – Economic Development, Culture and Tourism
- CS – Corporate Services
- CNS – Community and Neighbourhood Services
- UDS – Urban Development Services

Recommendation	Management Response
<p>1. The City Manager review the current corporate governance structure of Fleet Services and determine the extent of resources allocated to fleet-related functions in all City departments, with a view to:</p> <ul style="list-style-type: none"> (a) evaluating the feasibility of centralizing ownership, control and accountability of City fleet and integrating all fleet operations and related funding within Fleet Services; and (b) reporting to the Policy and Finance Committee by January 2006. Such report to include the following: <ul style="list-style-type: none"> (i) proposed organizational structure to integrate all fleet services; (ii) costs and benefits of such change; (iii) roles and responsibilities of Fleet Services and user departments; (iv) impact on the operating and capital budgets of Fleet Services and user departments; and (v) recommended action, including specific timelines for implementation. 	<p>(a, b) Agree. The existing centralized fleet and administrative model includes city divisions and select agencies, boards and commissions as aligned after amalgamation.</p> <p>The proposed review of Fleet Services' current corporate governance structure should include the extent to which Emergency Medical Services (EMS), Police Services and Fire Services operate their own respective fleets in consideration of recommendation 1a and b.</p>

Recommendation	Management Response
<p>2. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure:</p> <p>(a) all fleet-related costs are considered prior to authorizing equipment repairs, providing that no further repairs be made to equipment scheduled for disposal within a specified period or equipment with total maintenance and repair costs within a specified percentage of its replacement value, without written justification for the repair authorized by Fleet Services, in consultation with the operating division. At a minimum, justification to specify that:</p> <p>(i) no similar equipment from other programs or corporate pool is available as temporary replacement; and</p> <p>(ii) equipment has been scheduled for replacement at a specified date.</p> <p>(b) all equipment acquisitions comply with standard equipment specifications, with a view to further reducing the number of equipment types and models; and</p> <p>(c) a progressive enforcement program be established for ensuring equipment receives preventive maintenance on a timely basis.</p>	<p>(a) Agree. Fleet Services will determine repair cost limits as appropriate in consideration of replacement value, availability of other vehicles/equipment and record this information for reference before repairs are approved. However, under the proposed rental rate program in 2006, consultation with affected programs will no longer be required. Internal charges to the programs will be replaced by a flat monthly charge.</p> <p>(b) Agree, actioned. Fleet Services will continue to reduce the number of equipment types and models in service, through the Fleet Acquisition and Specification Team and the new rental rate program. The rental rate program in 2006 varies between classes of vehicles and types (i.e. light, medium, and heavy pick-up trucks) and will advance efforts to reduce the number of equipment types and models. There is also an incentive for front-line managers to re-evaluate the type of vehicle they are using to provide service.</p> <p>(c) Agree. Fleet Services will pursue a more aggressive enforcement program for preventive maintenance service under the new governance structure and any future structure as a result of completing recommendation 1. Our current method of enforcing the preventative maintenance schedule is to remind the user by e-mail or phone. In circumstances of extreme delay, the vehicle fuel card is disabled until there is compliance.</p>

Recommendation	Management Response
<p>3. The Deputy City Manager and Chief Financial Officer explore the possibility of purchasing year-old off-lease or nearly new vehicles.</p>	<p>Disagree. Buying used vehicles would increase maintenance costs, by limiting the warranty coverage, and reduce the useful life of the vehicle. Many of the safety features that are a requirement of our specifications may not be available.</p> <p>With a centralized fleet operation, the City receives significant volume discounts on its vehicle and equipment purchases. The manufacturer’s warranty would be diminished with used vehicles. It would be difficult to up fit the vehicles to the City standards and trying to find quality used vehicles would delay the replacement of aged vehicles.</p>

Recommendation	Management Response
<p>4. The City Manager establish a corporate-wide policy providing that:</p> <ul style="list-style-type: none"> (a) Fleet Services be designated as the primary provider of maintenance and repair services for City equipment; (b) Fleet Services co-ordinate all referrals of maintenance and repair services to private repair shops, if required. 	<p>(a, b) Agree. The new rental program in 2006 and new governance structure, to be determined under recommendation 1, will require that programs use Fleet Services under a corporate-wide policy.</p>

Recommendation	Management Response
5. The City Manager evaluate the feasibility of centralizing all rental vehicles within Fleet Services and report to the Policy and Finance Committee by January 2006.	Agree. The City Manager will evaluate the feasibility of centralizing all rental vehicles within Fleet Services including additional resource implications for doing so.

Recommendation	Management Response
<p>6. The Deputy City Manager and Chief Financial Officer implement policies and procedures pertaining to vehicle rentals requiring that:</p> <ul style="list-style-type: none"> (a) detailed business cases be provided by all departments for rental vehicles, such business cases to take into account the following: <ul style="list-style-type: none"> (i) cost benefit of renting as opposed to purchasing vehicles; (ii) availability of similar under-utilized or surplus vehicles in other programs or departments; and (iii) the possibility of sharing vehicles with other programs for use throughout the year; (b) Fleet Services assume responsibility for ensuring business cases for rental vehicles are completed, reviewed and authorized; and (c) where rental vehicles are used throughout the year for permanent programs, contribution to the vehicle and equipment replacement program be provided towards the purchase of the vehicle within a specified period. 	<ul style="list-style-type: none"> (a) Agree. The business case template, developed in 2004, for new vehicle acquisitions will be modified to fulfill the requirements for rental vehicles as described in recommendation 6a. (b) Agree, pending the outcome of recommendation 5, provided Fleet Services is sufficiently resourced to assume responsibility of the rental fleet. (c) Agree. Contribution to the equipment replacement program, toward the purchase of a vehicle, should be addressed in the business case analysis in recommendation (a)

Recommendation	Management Response
<p>7. The City Manager report to the Administration Committee, upon completion of the yards rationalization study, on the status of the recommended closures of the maintenance garages located at 875 Eastern Avenue, 1008 Yonge Street, 1401 Castlefield Avenue and 30 Northline Road.</p>	<p>Agree. The City Manager, in consultation with the affected program areas, will provide a status report on the four garages identified, pending completion of the yards consolidation study of recommendation 8.</p>

Recommendation	Management Response
<p>8. The City Manager give priority to the completion of the Yards Consolidation Study and report to the Administration Committee by October 2005 on the status of the study and expected implementation timelines.</p>	<p>Agree. This recommendation is related to recommendation 7 and also has crossover implications to the fuel site review currently being undertaken by Fleet Services.</p>

Recommendation	Management Response
<p>9. The City Manager report to the Works Committee and Administration Committee by October 2005, on the results of phase one of the Yards Rationalization Study, as directed by Council in 2001. Such report to provide the following:</p> <ul style="list-style-type: none"> (a) an assessment of the value of the study; (b) expected timelines and requirements to complete phase two of the study, giving priority to the completion of the study; and (c) the potential impact of any yards closure, resulting from the study, on other programs such as maintenance garages, stores warehouses and fuel dispensing sites. 	<ul style="list-style-type: none"> (a) Agree. (b) Agree. The City Manager in consultation with the affected program areas develop and/or update a work plan to complete phase two of the study. (c) Agree. The completion of the yards consolidation/rationalization study will have significant crossover implications to current work being done on warehouses and fuel sites.

Recommendation	Management Response
<p>10. The Deputy City Manager and Chief Financial Officer use the M4 Fleet Management Information System to analyze work performance by comparing actual work hours on specific repairs to industry standards and generating exception reports identifying those repairs where actual work hours vary significantly from industry standards. Such reports to be reviewed by supervisory staff, significant variances investigated and appropriate corrective action taken.</p>	<p>Agree. In 2002, Fleet established standard rate times in M4 for preventative maintenance on all vehicle classes. For jobs that can be compared to the industry standards, Fleet will generate exception reports for review and take appropriate action.</p>

Recommendation	Management Response
<p>11. The Deputy City Manager and Chief Financial Officer establish efficiency and effectiveness performance measures for fleet operations that provide a basis for trend analysis of costs, productivity and performance, and for comparison internally between locations and previous performance or externally with other leading local government fleet organizations.</p>	<p>Agree, actioned. In addition to Fleet Services' existing performance measures for productivity, efficiency and effectiveness (ie. Productivity report, door rate benchmarks, standard labour hours), the division is expanding its benchmarking to include the Ontario Municipal Benchmarking Initiative (OMBI) and a similar survey being conducted by the Canadian Association of Municipal Fleet Managers (CAMFM) to determine best, Canadian fleet practices. The experience with OMBI to date has shown that direct, comparisons between fleets are difficult because no two fleets are the same.</p>

Recommendation	Management Response
<p>12. The Deputy City Manager and Chief Financial Officer modify the calculation of the standard hourly labour rate used to bill user departments for services performed at City garages, in order to ensure that full-cost recovery is achieved, as directed by Council.</p>	<p>Agree, actioned. The rental program adopted by Council (February 21-28, and March 1, 2005, Policy & Finance Committee Report 3, Clause 3, dated September 13, 2004) addresses the standard labour rate issues. The rental rate is a fixed monthly charge for the maintenance costs of each class of vehicle. Using rental rates as a means to recover fleet costs has become the internal chargeback of choice for many Canadian municipalities because of its strong emphasis on vehicle utilization.</p>

Recommendation	Management Response
<p>13. The Deputy City Manager and Chief Financial Officer establish criteria for using private repair shops and procedures to ensure repairs and other fleet-related services are referred to private repair shops accordingly.</p>	<p>Agree. The referral decisions have primarily been driven by shop capacity, staff availability, and speciality repairs. Fleet Services can formalize the process to include criteria for review before referring repairs to private shops. Such criteria to include but not be limited to potential, vehicle downtime, parts availability, cost, shop space and staffing.</p>

Recommendation	Management Response
<p>14. The Deputy City Manager and Chief Financial Officer in consultation with the Chief Financial Officer and Treasurer, explore the possibility of using preferred vendors selected through a competitive process to provide repair services for City vehicles at negotiated rates.</p>	<p>Agree, actioned. An RFP to select district repair facilities is currently with Purchasing Management and Materials Division.</p>

Recommendation	Management Response
<p>15. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure payments for work performed by private repair shops are in compliance with corporate purchasing policies.</p>	<p>Agree, actioned. Fleet Services has continually increased its use of contracts to ensure ongoing compliance with all purchasing policies regarding maintenance repairs.</p>

Recommendation	Management Response
<p>16. The Deputy City Manager and Chief Financial Officer take necessary steps to:</p> <ul style="list-style-type: none"> (a) develop criteria for conducting random quality assurance inspections of vehicles serviced by private repair shops, including the frequency, timing and nature of the inspection; (b) develop a standard form to document the inspection and retain documentation for review by supervisory staff; and (c) evaluate inspection results, taking appropriate corrective action, where necessary, in order to ensure the effectiveness of the program. 	<p>(a) Agree, actioned. Since 2001, Fleet Services has conducted random inspections of repairs by suppliers. In the second quarter of 2005, this program was formalized with a target of conducting random inspections on 5 to 10 per cent of general repairs performed externally on a quarterly basis.</p> <p>(b) Agree, complete. A sample of the standard form is provided in Appendix B.</p> <p>(c) Agree, actioned.</p>

Recommendation	Management Response
<p>17. The Deputy City Manager and Chief Financial Officer review practices with respect to warranty repairs and take appropriate steps to:</p> <ul style="list-style-type: none"> (a) establish criteria for determining when warranty repairs should be referred to the manufacturer or performed internally; (b) utilize the M4 Fleet Management Information System for recording warranty information and tracking warranty repairs; (c) ensure eligible costs for warranty repairs are recovered from the manufacturer; and (d) formalize warranty reimbursements from manufacturers when in-house warranty repairs are made, ensuring full recovery of direct labour costs. 	<ul style="list-style-type: none"> (a) Agree. However, the current process ensures all major repairs covered under warranty are referred to the manufacturer/ dealership. Only when opportunity costs (i.e. towing charges, transporting costs and downtime) exceed the cost of doing the job in-house will minor repairs, covered under warranty, be done by staff technicians. (b) Agree. Utilizing the M4 function could enhance the existing process. Currently, technicians will check on-line with manufacturer websites when warranty issues arise. They will also ask supervisors or specifications analysts if items will be covered by warranty. The M4 system has the capability to record warranty information and this be could be used in the future as an additional source of information. (c, d) Agree, actioned. Fleet Services has made every effort to recover warranty repair costs, and has made progress in formalizing agreements with suppliers to recover labour costs for warranty work performed in house. However our cost structure is very different than external providers. Suppliers insist that they will not exceed their own cost when reimbursing the City. Fleet Services has taken action to include recovery of labour cost plus benefits during the RFQ process as part of the evaluation criteria. The division also identifies trend repairs through the M4 system and has been successful in recovering reimbursement for repairs from manufacturers that are not covered under warranty (referred to as goodwill).

Recommendation	Management Response
<p>18. The Deputy City Manager and Chief Financial Officer take necessary steps to ensure that odometer and hour meter readings are accurately recorded in the M4 Fleet Management Information System by garage staff prior to work order close-out.</p>	<p>Agree. Fleet Services is exploring opportunities to automate this function as part of the fuel site review and the possibility of integrating meter readings with M4.</p>

Recommendation	Management Response
<p>19. The Deputy City Manager and Chief Financial Officer take appropriate steps to identify standard management reports that should be generated from the M4 Fleet Management Information System, the purpose and frequency of such reports, and the staff responsible for their review and appropriate follow-up action.</p>	<p>Agree. Fleet Services already generates reports in co-operation with the programs to meet their specific requirements. In addition, Fleet Services will review its current use of M4-generated reports focusing on those that enhance the new rental rate program.</p>

Recommendation	Management Response
<p>20. The Deputy City Manager and Chief Financial Officer evaluate resources required to provide adequate technical support to the M4 Fleet Management Information System and ensure sufficient City staff are adequately trained to provide necessary technical support in the day-to-day operational use of the system.</p>	<p>Agree.</p>

Recommendation	Management Response
<p>21. The Deputy City Manager and Chief Financial Officer review the possibility of automating the subsequent posting of unmatched data to the M4 System.</p>	<p>Agree. Fleet Services continues to seek efficiencies through automation improvements. The division has already greatly reduced its reliance on manual entries through processing improvements to the M4 and SAP interface. The result has been an improvement to the net variance. In 2004, Fleet Services achieved its best ever, net variance by collecting \$33.7 million in revenue, or 99 per cent of its \$33.9 million gross expenditures, as noted by the Auditor General’s report phase two, Appendix 3.</p>

Recommendation	Management Response
<p>22. The City Manager ensure that the pending corporate warehouse review undertaken by the Finance Department as part of the rationalization of City Stores and as requested by the Budget Advisory Committee includes:</p> <ul style="list-style-type: none"> (a) an evaluation of centralizing control of all automotive parts inventory: <ul style="list-style-type: none"> (i) under Fleet Services or Purchasing and Materials Management; and (ii) using one management information system for tracking of parts inventory using either M4 Fleet Management Information System or SAP; and (b) the establishment of centralized policies and procedures for inventory management at all automotive parts warehouses, ensuring adequate controls are in place, including: <ul style="list-style-type: none"> (i) establishing criteria for items to be included in inventory; (ii) utilizing available system feature for tracking inventory usage and re-order levels; (iii) conducting periodic surprise counts of items over a specified value; (iv) using metered dispensing equipment for bulk items in large volumes such as oils and lubricants; and (v) disposing obsolete items on a timely basis. 	<p>(a) Agree, actioned. Fleet Services participated and provided input into the corporate warehouse review with respect to centralizing automotive parts inventory under the current model. However, the consignment model for parts acquisition and inventory, as adopted by Council in May 2004, has significant impact on this recommendation. The intention of the endeavour was to partner with a large parts supplier, similar to the City’s arrangement with Lyreco regarding office supplies. The greatest advantage to working with a single parts supplier is that the City now has access to a massive distribution network capable of same day delivery. The stores entanglement is no longer an issue because there is no inventory nor would the satellite inventory be relevant because the provider owns the part until it is issued. This model has proven to be successful in the Cities of Chicago and Laval, where they also use SAP and M4.</p> <p>(b) Agree, actioned. As mentioned above, it is expected that the initiative already underway will address the items in this recommendation.</p>

Recommendation	Management Response
<p>23. The Deputy City Manager and Chief Financial Officer review the proposed parts consignment model prior to finalizing any agreement, with a view to:</p> <ul style="list-style-type: none"> (a) evaluating all costs and benefits including potential additional costs for staffing, warehouse re-configuration and opportunity costs for increased warehouse space requirements; (b) determining the proper disposition of existing inventory; and (c) ensuring that control of warehouses maintaining inventory is centralized under one management responsibility. 	<p>(a, b, c) Agree. The proposed parts consignment model was approved by Council in May 2004 and since then has been reviewed extensively by Legal and Corporate Finance staff. The potential cost savings for parts and reduced vehicle downtime is expected to improve overall service delivery. Under no circumstances is the City obligated to invest in its warehousing infrastructure or add additional staff to accommodate any potential supplier. Existing inventory would be used up on a first in first out basis (FIFO) or, alternatively, sold back to the supplier.</p>

Recommendation	Management Response
<p>24. The Deputy City Manager and Chief Financial Officer establish policies and procedures regarding storage and inventory record-keeping at satellite garages, ensuring parts are securely stored, used only for authorized City vehicles, and properly accounted for.</p>	<p>Agree, actioned. As per recommendation 23, any issue regarding inventory will be addressed through the new consignment model.</p>

Recommendation	Management Response
<p>25. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure an up-to-date detailed inventory listing of shop tools and equipment over a specified amount is maintained at each City-operated garage, providing that:</p> <ul style="list-style-type: none"> (a) such listing include identification number, value of the items, details of purchase; and (b) a physical inventory count of shop tools and equipment be conducted periodically, discrepancies investigated and adjustments made to the records only after review and approval by an authorized official. 	<p>(a, b) Agree, actioned. The current district shop tool list and count has been revised. Specialized equipment has been mapped as a reference tool to reduce the cost of equipment through facility sharing.</p>

Recommendation	Management Response
<p>26. City Council direct that this report be forwarded to those City organizations who separately manage their own fleet operations, including Emergency Medical Services, Fire Services, Toronto Police Service, Toronto Library Board, Toronto Zoo and Exhibition Place, in order to ensure that issues raised are addressed by them where appropriate. These organizations be required to report back to the first 2006 meeting of the Audit Committee in connection with the results of their review, specifically addressing:</p> <ul style="list-style-type: none"> (a) garage operations; (b) maintenance and repairs by private repair shops; (c) fleet management information systems; and (d) parts inventory controls. 	<p>Agree. Reporting out of recommendation 1 and 26 be co-ordinated with respect to any new governance structure identified as a result of carrying out recommendation 1.</p>



Fleet Services Division

Appendix B - Contractor Audit Inspection Form

Contractor Name: _____
 Date of repairs: _____ Fleet work order #: _____
 Date of Inspection: _____ Fleet work order #: _____
 Fleet maintenance location conducting inspection: _____
 Inspecting technician: _____
 Tracking Number (where applicable): _____

1: Reason for inspection: Random Complaint Follow up Savings

2: Briefly describe the work conducted by contractor:

3: Was all work completed in accordance with billing information: Yes No
 Is further investigation required: Yes No

4: If deficiencies were identified, describe in detail the nature of the deficiency (use reverse or attach separate sheet if necessary):

5: Were there any savings associated to this inspection: Yes No
 If yes, estimated amount of savings: \$ _____

Acknowledged:

First Routing

Second Routing

Fleet location Supervisor
Date: _____

Manager, Maintenance Operations
Date: _____

Instructions: Where additional follow up is identified, please attached any relevant documentation to this report (eg: original work order / invoice, technical specifications/deviations, etc).