



AU17-002
Fleet Maintenance Department
Fuel Expense

City Auditor's Office
Arlena Sones, CPA, CIA, CGAP
City Auditor

July 10, 2017

Executive Summary

In accordance with the FY 2017 Annual Audit Plan, we conducted an audit of the Fleet Maintenance Department of the City of Corpus Christi. City Council questioned the need for \$6 million to be budgeted for Fleet's Service Station cost of goods sold (fuel expense), and questioned if that amount was inappropriately allocated to user departments.

Audit Objective and Scope

The audit objective is:

Are Fleet fuel expenses appropriately budgeted and allocated to departments?

Audit Conclusion

Fleet fuel expenses are not appropriately budgeted, and allocation methodologies can be improved.

Regarding budgeting:

- There are two Fleet fuel expense accounts, and both are over budgeted.
 - Org. 40140 Service Station fuel expense was budgeted at \$6 million in FY 2016, but actual expenses were only \$2.2 million.
 - Org. 40200 Police/Vehicle Pool fuel expense was budgeted at \$870,000 in FY 2016, but actual expenses were only \$330,000.

Regarding allocations:

- The \$6 million Service Station fuel expense budget is not allocated to user departments; instead Fleet appropriately direct bills its fuel sales to departments each month.
- The \$870,000 fuel expense budgeted for Police/Vehicle Pool is allocated to user departments resulting in allocation revenue that exceeds costs.

Other issues are noted in the report.

City and Fleet management generally agree with this report; however, management did not provide responses prior to the release of the report.

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Introduction

In accordance with the 2017 Annual Audit Plan, we conducted an audit of the Fleet Maintenance Department (Fleet) of the City of Corpus Christi (City).

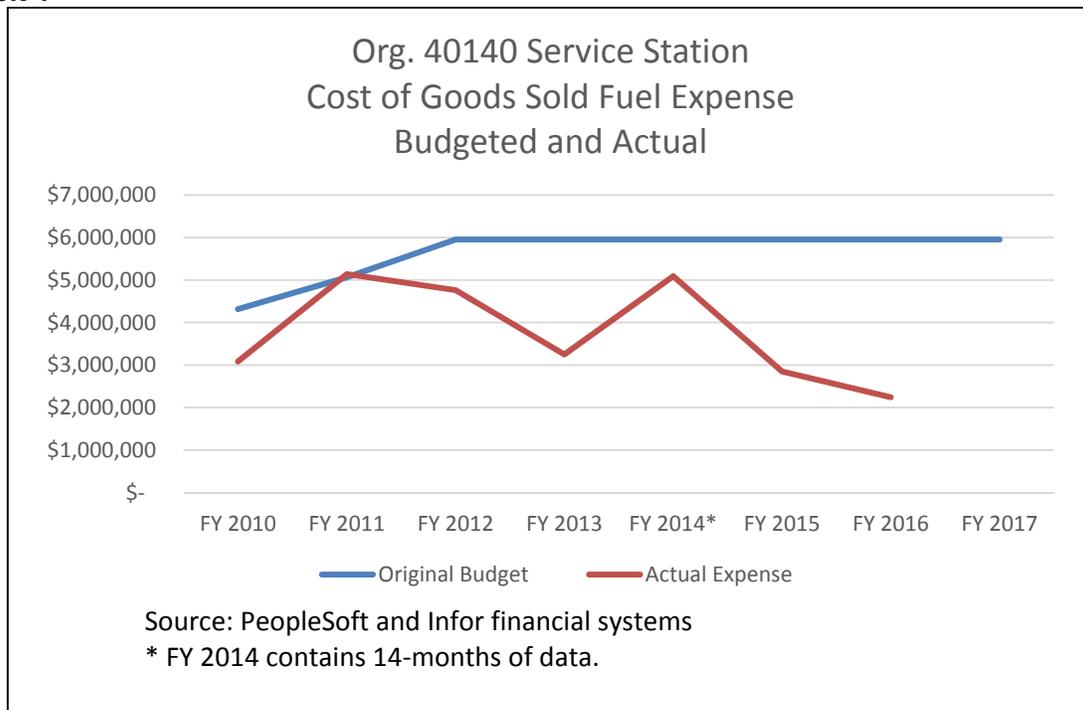
During the FY 2017 budget workshop, City Council members questioned why Fleet's Service Station was budgeted \$6 million for cost of goods sold (COGS fuel expense), and they questioned if the amount was allocated to (and recovered from) user departments.

The Fleet Director explained that fuel expenses were expected to be around \$3 million; however, the \$6 million amount gave him the authority to purchase up to that amount of fuel in case of a spike in prices. He further explained that the \$6 million is not allocated to user departments.

Exhibit 1 below compares the budgeted to actual COGS fuel expense of the Fleet Service Station. Since FY 2012, the COGS fuel expense has been budgeted at \$6 million.

Two spikes in actual expense can be seen. In FY 2011, the spike can be attributed to a nationwide increase in fuel prices. Except for FY 2014, which contains 14-months of fuel expenses, fuel expenses are trending downward.

Exhibit 1



Background

Per its FY 2016-2017 Business Plan, Fleet maintains and manages City vehicles and equipment from cradle to grave. The financial transactions of Fleet are recorded into an internal service fund (5110). Expenses and revenues are classified by division (i.e. organizational units) and by mission element. The major Fleet divisions, other than equipment purchases, are listed below:

Fund 5110 Fleet Maintenance			
Org. No.	Organization Name	Org. No.	Organization Name
40050	Director	40140	Service Station
40100	Mechanical Repair	40170	Fleet Operations
40110	Centralized Fleet	40180	Parts Room Operations
40120	Equipment Purchases	40200	Police/Vehicle Pool

Fleet's mission elements are:

- 201 - Manage rolling stock and capital items
- 202 - Maintain the City's fleet

Fleet recoups its expenses from user departments through two monthly allocations:

- Fleet Vehicle Repair Allocation
- Fleet Police/Vehicle Pool Allocation

Management of the Fleet Department was very cooperative during this audit, and we found staff to be knowledgeable in their areas of expertise.

Audit Objective and Conclusions

The objective for this audit project is:

Are Fleet fuel expenses appropriately budgeted and allocated to departments?

To answer this objective, we broke it down by answering the following questions:

1. Is the budgeted \$6 million COGS included in the Fleet Vehicle Repair Allocation or the Police/Vehicle Pool Allocation?
2. Are fuel charges billed directly to user departments?

Issues noted while planning the audit prompted us to expand the scope to determine the following:

3. Are the appropriated fuel expense funds used for any other purpose?
4. If the Service Station COGS is not allocated to user departments, how does the Service Station recover its expenses?

Here is what we found:

1. The \$6 million budgeted as COGS in Org. 40140 Service Station is not allocated to user departments; however, there is an additional \$870,000 budgeted as fuel expense in Org. 40200 Police/Vehicle Pool that is allocated in full to the user departments.
2. Fuel charges are billed directly to user departments appropriately.

3. The \$6 million COGS appropriated for fuel purchases in Org. 40140 Service Station has been used to cover operating costs of other Fleet divisions. The same is true for the \$870,000 appropriated for fuel in Org. 40200 Police/Vehicle Pool.
4. Fleet recovers the expenses of Org. 40140 Service Station through two methods.
 - It adds a 12-cent per gallon mark-up on the fuel sold to user departments.
 - It allocates total fixed expenses through the Fleet Repair Allocation.The revenue generated from the fuel mark-up and the allocation equate to twice the total budgeted expenses of the Service Station.

Based on these findings and other issues described in this report, we conclude that Fleet fuel expenses are not appropriately budgeted, and allocation methodologies can be improved.

Management and Auditor Responsibility

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial (and non-financial) activity is accurately reported and reliable, and management and employees are in compliance with laws, regulations, and agreements with other entities.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit steps were developed to provide sufficient evidence to answer the objectives of this audit. Our methodology can be found in Appendix A - Audit Scope and Methodology.

Staff Acknowledgement

Arlena Sones, City Auditor

Audit Results and Recommendations

A. Over Budgeted Cost of Goods (COGS) Fuel Expense

Condition: Fleet is inflating its budgets for COGS fuel expense. Fleet routinely budgets \$6 million for Org. 40140 Service Station COGS fuel expense; however, in FY 2016, the Service Station spent only \$2.2 million for fuel.

On a similar note, Fleet budgeted \$870,000 for fuel expense in Org. 40200 Police/Vehicle Pool division, but it spent only \$330,000.

Criteria: The Local Government Code, Section 102.003 requires the budget officer (i.e. the City Manager) to itemize the budget to allow as clear a comparison as practicable between expenditures included in the proposed budget and actual expenditures for the same or similar purposes made for the preceding year.

The Government Finance Officers Association (GFOA) recommends that budget projections should “strive for accuracy by coming as close as possible to the actual outcome.”

Cause: The City’s Budget Policy is silent as to the level of precision required in budget estimates. Further, there are no performance measures related to the accuracy of expenditure projections; therefore, there is no downside to management for overbudgeting.¹

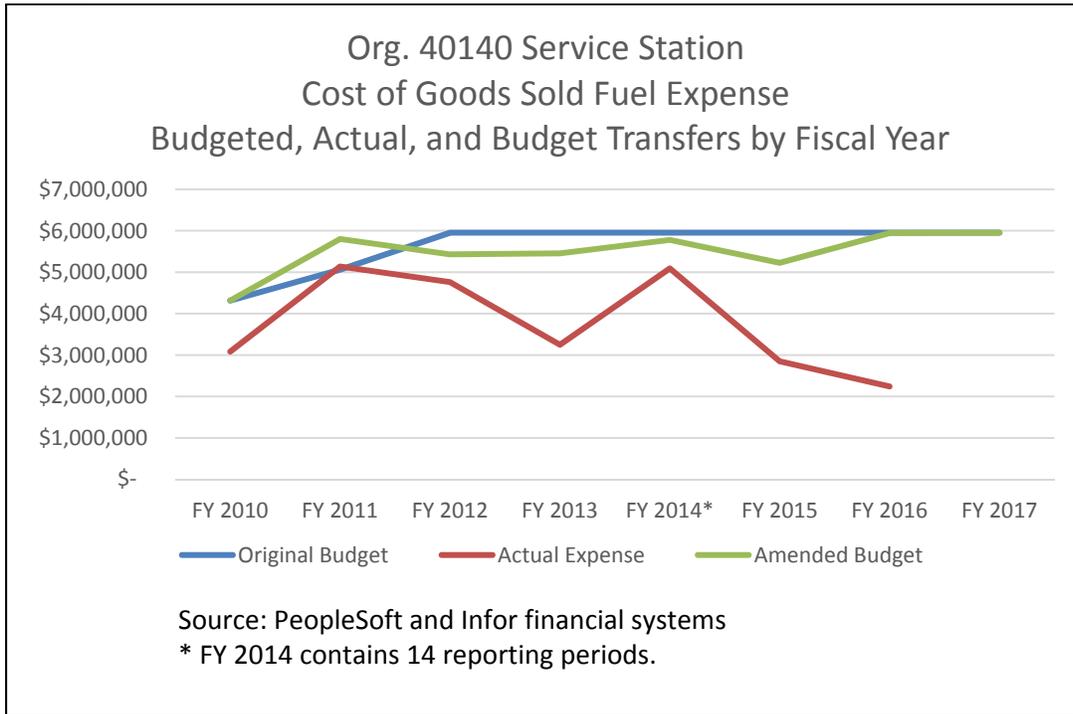
Management (the Fleet Director, the Budget Director and the Assistant City Manager) states that overbudgeting allows for uncertainties and fluctuations in fuel prices; however, the City’s budget policy allows internal service funds to maintain a fund balance of 3% of annual appropriations to cover unforeseen circumstances.

Effect: The main effect of overbudgeting its COGS fuel expense is that it allows Fleet to transfer the allocated funding out of Org. 40140 Service Station to cover operating costs and capital purchases of its other divisions.

The graph in Exhibit 2 shows transfers out of the COGS account every year from FY 2012 through FY 2016. In FY 2015 and FY 2016, budget transfers out of the COGS account were \$725,700 and \$7,500, respectively. There have been no transfers in FY 2017 as of March 31, 2017.

¹ There are two performance measures for revenue projections ranging from 1% to 3% of actual.

Exhibit 2



Similarly, Fleet transferred \$204,000, \$475,000 and \$300,000 out of Org. 40200 Police/Vehicle Pool fuel expense account to cover operating costs of other Fleet divisions in FY 2015, FY 2016 and FY 2017, respectively.

A.1 Recommendation: We recommend that Fleet management strive for accuracy by developing budgets that come as close as possible to the actual outcome.

A.2 Recommendation: The City Manager could bring the City’s budget policy into compliance with state law and GFOA best practices by including a requirement for departments to create budgets that allow as clear a comparison as practicable between expenditures included in the proposed budget and actual expenditures for the same or similar purposes made for the preceding year. Adding performance measures to the Budget Department related to accuracy in estimating expenditures would further strengthen the City’s budget policy.

B. Allocation of Fuel Expenses

Condition: As reported by the Fleet Services Director, the budgeted \$6 million COGS fuel expense in Org.40140 Service Station is not allocated to user departments in the Fleet Repair Allocation; however, the budgeted fuel expense of Org. 40200 Police/Vehicle Pool is allocated to user departments in the Fleet Police/Vehicle Pool Allocation.

Criteria: Per the City's budget policy, "The City's internal service funds support other City operations on a cost basis, with allocations back to customer departments for costs incurred."

Cause: Fleet's allocation methodology appropriately includes the fuel expense of Org. 40200 Police/Vehicle Pool, but it inappropriately uses budgeted costs instead of actual costs incurred.

Effect: In FY 2016, user departments of the Police/Vehicle Pool were potentially overcharged by \$540,000 because of the overbudgeted fuel expense.

Recommendation: None. See the recommendation for budget precision at Issue A.

C. Expense Recovery through Repair Allocation and Fuel Mark-up

Condition: Org. 40140 Service Station adds a 12-cent per gallon mark-up on fuel, seemingly for cost recovery related to its fueling function; however, it also recovers 100% of its fixed costs through the Fleet Repair Allocation.²

Criteria: GFOA recommends that governments follow these steps when considering an internal service pricing system:

1. Identify goals of internal service pricing
2. Develop allocation strategy
3. Define level of costing detail
4. Determine cost of service
5. Decide basis of allocation
6. Consider potential drawbacks

Cause: Fleet is unable to "determine the cost of service" for its fueling function because the costs are co-mingled with the costs of the preventative maintenance function in Org. 40140 Service Station. If a mission element had been created for the fueling function, costs could have been identified.

Effect: There is a lack of transparency relating to the Service Station costs, and Fleet is potentially overcharging for fuel.

Recommendation: Fleet needs another mission element to identify the actual costs of its fueling function. By segregating the costs of the fueling function from the preventative maintenance function, Fleet will be able to make better informed decisions related to allocation methodologies.

² In FY 2016, the Service Station generated approximate \$860,000 from its two sources of revenue: repair allocation revenue and net income from fuel sales revenue (\$670,000 and \$190,000, respectively), while actual expenses were approximately \$420,000.

D. Service Station Revenue Incorrectly Classified

Condition: Fuel sales revenue is not posted to Org. 40140 Service Station; instead it is classified as revenue of Org. 40170 Fleet Operations.

Criteria: Basic accounting principles call for matching of revenue and expenses.

Cause: There is no City policy related to the creation and use of funds, organizational units, and mission elements; therefore, the Financial Services Department traditionally matches revenue and expenses at the fund level.

Effect: There is a lack of transparency when posting revenue and the related expenses into different organizational units.

D.1 Recommendation: The Fleet Director could improve the transparency of Fleet operations by requesting that fuel sales revenue be posted into Org. 40140 Service Station instead of Org. 40170 Fleet Operations.

D.2 Recommendation: The City Manager could strengthen financial controls by developing policy for the creation and use of funds, organizational units, and mission elements.

E. Fleet Repair Allocations-Other Matters

Condition: While we did not audit the Fleet Repair Allocations or the Fleet Vehicle Pool Allocations, we do note these issues.

- There are no written guidelines for Fleet's methodology.
- The allocations are not equitably distributed. For example, a new sedan used by the Library is charged the same repair allocation as an older model garbage truck in the Solid Waste Department.

In 2011, Fleet underwent a competitive assessment conducted by Mercury Associates, Inc. The assessment noted the above issues and recommended:

The City should implement a service based (i.e. direct charge) cost charge-back system for all customers to improve cost recognition and control, equity, and to send consistent price signals that link fleet user behavior with costs.

Fleet agreed to implement the recommendation no later than September, 2012. Management's response reads as follows:

- *Fleet Maintenance will recommend for implementation a service based (i.e. direct charge) cost charge-back system. Fleet Maintenance staff, the Fleet Advisory Board, Finance, Budget, and executive staff members will review and approve recommendations and execution.*

- *Annually, the Fleet Advisory Board, Finance, and Budget, will review and make recommendations to executive staff for approval and execution of charge back system methodology.*

Recommendation: Fleet could improve its allocation methodology by implementing the recommendations of the 2011 competitive assessment conducted by Mercury Associates, Inc.

Appendix A – Audit Scope and Methodology

We reviewed the FY 2017 Fleet Repair Allocation and the Police/Vehicle Pool Allocation worksheets, insofar as fuel billing/allocation was concerned. Where issues presented, we increased the time scope as needed.

We initiated this audit on March 10, 2017 and concluded fieldwork on April 28, 2017.

We traced the \$6 million COGS fuel expense from the FY 2015 approved budget to the FY 2016 Fleet Repair Allocation worksheet. From this worksheet, we traced the allocations to the user departments' FY 2017 financial records in Infor to determine if the budgeted COGS fuel expense was included in the Fleet allocations. We reperformed these steps for the \$870,000 fuel expense included in the Police/Vehicle Pool Allocations to determine if the budgeted COGS fuel expense was included in the Fleet allocations.

We looked for budget transfers out of two fuel expense accounts, Org. 40140 Service Station COGS and Org. 40200 Police/Vehicle Pool fuel expense, and traced all transfers that occurred in FY 2015, FY 2016, and FY 2017 to the receiving fund/organization.

We traced the most recent month of Fleet fuel sales and one month of Valero procurement card fuel purchases (February 2017) from Fleet's M5 system of record to the user's department's fuel expense account in the Infor financial system to determine if direct billing was occurring. The Police Uniformed Division was judgmentally selected as it is the largest user of the Police/Vehicle Pool.

We analyzed financial data for Fund 5110 from FY 2010 to current. We reviewed data to determine if the fixed costs of Org. 40140 Service Station were fully recovered through the fuel mark-up.

In conducting our audit, we relied on the following authoritative guidelines to serve as criteria for the audit:

- City Financial Policies
- City Budget Policies
- Local Government Code
- GFOA Best Practices
- Mercury Associates, Inc. Fleet Management Competitiveness Assessment and Right-Sizing Study

Our evidence includes the following. We used the Fleet Repair Allocation worksheet and the Police/Vehicle Pool Allocation worksheet to determine if the \$6 million COGS was allocated to user departments. Fleet's M5 billing data files were used to trace the direct

billing of the Service Station fuel sales and fuel purchases made using the Valero procurement card. We used budget transfer request documentation to trace the transfer of appropriated funds from the two fuel expense accounts.

We relied on information from Fleet's M5 system, Infor, the City's information system of record, and PeopleSoft, the City's legacy financial system. We did not perform general or application control tests on these systems. We do not believe our lack of testing system controls affected the outcomes of this report.

We reviewed the 2011 Fleet Management Competitive Assessment conducted by Mercury Associates, Inc.; however, we did not perform a follow-up on the recommendations made in the report.

We believe this testwork provides sufficient and appropriate evidence for our audit conclusion and finding.

Appendix B - Fleet Maintenance Responses

June 28, 2017

Arlena Sones, CPA, CIA, CGAP
City Auditor
Corpus Christi, Texas

Re: AU17-002 Fleet Maintenance Department, Fuel Expense Audit

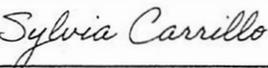
We have carefully reviewed the issues presented in the audit report referenced above, and our plans to address the issues are described on the following pages.

Sincerely,



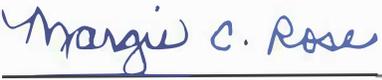
Jim Davis
Director

7-5-2017
Date



Sylvia Carrillo
Assistant City Manager

07/05/2017
Date



Margie C. Rose
City Manager

7.10.17
Date

Fleet Maintenance Department Response to AU17-002 Fleet Maintenance Department Fuel Expenses

Audit Results and Recommendations

A. Over Budgeted Costs of Goods (COGS) Fuel Expense

Condition: Fleet is inflating its budgets for COGS fuel expense. Fleet routinely budgets \$6 million of Org. 40140 Service Station COGS fuel expense; however, in FY 2016, The Service Station spent only \$2.2 million for fuel.

***Fleet Response:** Fleet is not inflating its budget for COGS fuel expense because a corresponding revenue in the Fleet Maintenance Fund is also budgeted in the same amount as COGS – thus creating a neutral position in the Fund.*

The key point when addressing this issue is that COGS costs are appropriated in the Fleet Maintenance Fund but not charged to user Departments until they use the fuel. This means that Departments budget fuel expense within their own budgets, and when they purchase fuel and lubricants from Fleet, COGS in the Fleet Maintenance Fund is charged for the expense and a corresponding revenue in the Fleet Maintenance Fund is credited as payment from the Departments. The budgeted revenues and expenses in the Fleet Maintenance Fund cancel each other out.

Fleet is authorized to purchase fuel and lubricants from our suppliers in order to maintain adequate supplies of fuel and lubricants on hand for our customers, e.g. to keep the tanks full at the Service Station. Only when the customer purchases fuel or lubricants from the Service Station are expenses and revenues created and applied to Fleet's budget.

Put another way, COGS can be viewed as a mechanism that gives Fleet the authority to purchase bulk fuel and lubricants to keep up with the needs of our customers. The amount appropriated (\$6 M) resides in the COGS account in the Fleet Maintenance Fund, as is the corresponding revenue. It is used as necessary until the end of the fiscal year at which point the unused budget for both the expense and revenue zero out. Since this is the case and since COGS is not allocated, Fleet has maintained an excess in this line number in the event the cost of fuel goes up due to unforeseen circumstances. If that happened, we would be prepared to continue to purchase fuel and lubricants without having to search for COGS funding in the middle of a fiscal year. It is important to keep in mind, however, that there is also an offsetting revenue account in the Fleet Maintenance Fund that zeros the expense out. Historically, the highest expenses for COGS were in FY 2011 (\$4.2M) and FY 2014 (\$4.3 M), each of these years having their highest costs for unleaded and diesel above \$3 per gallon.

Effect: The main effect of overbudgeting its COGS fuel expense is that it allows Fleet to transfer the allocated funding out of Org. 40140 Service Station to cover operating costs and capital purchases of its other divisions.

Appendix B - Fleet Maintenance Responses

Fleet Response: *Although transferring funds from the COGS account was done in the past with the concurrence and approval of Management and Budget, it is no longer deemed an appropriate practice. Formerly it was thought this could be accomplished, but both Management and Budget and Fleet came to the conclusion in FY 16 that this practice should be discontinued. The Auditor recognized these past transactions and duly reported this discontinued practice. At the time of the audit, Fleet had already ceased these type transactions.*

Condition (continued): On a similar note, Fleet budgeted \$870,000 for fuel expense in Org. 40,200 Police/Vehicle division, but it spent only \$330,000.

Fleet Response: *In FY 15, fuel expenditures for this line number were \$539,396.00. In FY 16 fuel expenditures for this line number were \$332,269.00. In FY 17 fuel expenditures thus far are \$152,208.00.*

The Police budget for capital expenditures (police units) for FY 15 was \$909,706.00. This same amount was budgeted in FY16 and FY 17. The requirement for Police units annually is \$1.4M. In FY 15, Fleet augmented the Police capital budget by \$475,700 in FY 15 in order for the Police to meet their vehicle requirements for that fiscal year. In FY 16 capital expenditures were budgeted again at \$909,706.00. For FY 16 Fleet augmented the Police Capital budget by \$510,678.72. For FY 17 Fleet has augmented the Police Capital budget by \$156,000.00 so far with a proposed expenditures of \$231,971.00 to be spent in FY 18. The reason for this proposed expenditure for FY 18 is that we ran out of time to purchase the items requested in FY 17.

As can be seen, due to the budgeting shortfall, proper acquisition of required Police equipment was augmented using excess funds residing in Org. 40200. For FY 18, we have reduced proposed funding in the fuel account within 40200 to \$564,487.00 and will rebate any unused funds in this account back to the Police Department at the end of the fiscal year.

C. Expense Recovery through Repair Allocation and Fuel Mark-up.

Condition: Org 40140 Service Station adds a 12-cent per gallon mark-up on fuel, seemingly for cost recovery related to its fueling function: however, it also recovers 100% of its fixed cost through Fleet Repair Allocation.

Recommendation: Fleet needs another mission element to identify the actual costs of its fueling function. By segregating costs of the fueling function from the preventative maintenance function, Fleet will be able to make better informed decisions related to allocation methodologies.

Fleet Response: *We concur with recommendation and have initiated steps to create the new mission element and corresponding org. cited by the auditor for the reasons she so states. With regard to the 12-cent markup per gallon, our intention is to use this revenue to cover costs associated with the new fuel org. 40190.*

D. Service Station Revenue Incorrectly Classified

Condition: Fuel sales revenue is not posted to Org. 40140 Service Station; instead it is classified as revenue of Org. 40170 Fleet Operations.

Recommendation: The Fleet Director could improve the transparency of Fleet operations by requesting that fuel sales revenue be posted into Org. 40140 Service Station instead of Org. 40170 Fleet Operations.

Fleet Response: *We concur with this recommendation as far as it goes. However, it should be pointed out that the Auditor recommended the creation of an additional Org. as stated above. In view of that, we will see to it that fuel revenue will be posted to the new org. which we anticipate will be 40190. For information, the current billing interface program from the M5 Fleet Maintenance Information System into Infor Lawson moves the revenue funds from 40140 to 40170. To make the recommended changes to keep the revenue funds in 40140 would require a revision to the Infor Lawson interface program.*

E. Fleet Repair Allocations-Other Matters

Condition: While we did not audit the Fleet Repair Allocations or the Fleet Vehicle Pool Allocations, we do note these issues.

- There are no written guidelines for Fleet methodology.
- The allocations are not equitably distributed. For example, a new sedan used by the Library is charged the same repair allocation as an older model garbage truck in the Solid Waste Department.

In 2011, Fleet underwent a competitive assessment conducted by Mercury Associates, Inc. The assessment noted the above issues and recommended: *The City should implement a service based (i.e. direct charge) cost charge-back system for all customers to improve cost recognition and control, equity, and to send consistent price signals that link fleet user behavior with costs.*

Fleet agreed to implement the recommendation no later than September, 2012. Management's response reads as follows:

Fleet Maintenance will recommend for implementation a service based (i.e. direct charge) cost charge-back system. Fleet Maintenance staff, the Fleet advisory Board, Finance, Budget, and executive staff members will review and approve recommendations and execution.

Appendix B - Fleet Maintenance Responses

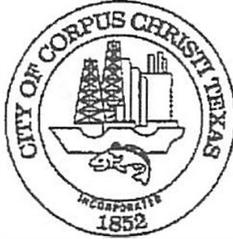
Fleet Response: *With regard to the Fleet allocation methodology, there are well established procedures between Fleet Maintenance and the Office of Management and Budget that dictate precisely how the allocation procedures are to be accomplished.*

The implementation of the Mercury recommendation was discussed with Senior Executive Staff at the time and the decision was made not to implement Mercury's proposed cost charge back allocation method. The cost charge back system is a viable method of allocation and a version of it was used many years ago by Fleet to determine allocations. The problem with a charge-back system is this: use of it dictates too much of a fiscal burden on the General Fund, particularly with Solid Waste allocations. The reality is that Solid Waste makes a significant contribution to the financial posture of the General Fund and the ability of Solid Waste to make these contributions must not be jeopardized. To accomplish this, an Assistant Budget Director named Rudy Garza years ago developed a system that would preserve the integrity of Solid Waste contributions. The system he developed is the one in place today.

Fleet Summation: *The exercise undergone by Fleet with this audit has been well worthwhile. The tangible result is that we are in the process of activating another org. 40190 which will deal strictly with fuel (COGS) and streamline fuel fiscal accounting. Additionally, we are proposing adding another Mission Element that will address the fact that fuel management is a key element in Fleet's mission. The Auditor's concern about proper accounting procedures is noted and, as can be seen, Fleet will endeavor to improve its procedures in that area. However, as discussed above, there are certain realities that have required attention and these have been accommodated by Fleet. Below is the conclusion presented by Mercury Associates, Ltd. in the competitive assessment and Fleet believes it is worth noting:*

As can be seen, GSD's (General Service Department) total cost per VEU (vehicle equivalent unit) is below our benchmark by 14-percent. This indicates that GSD's cost of maintenance and repair services are competitive with best-in-class municipal fleet organizations and with maintenance contractors. By "maintenance contractors" we mean organizations that occupy a municipality's shop(s) to provide all services on site.

It should be noted we have worked with several government clients that far exceed our cost benchmarks. In fact, only one quarter of the clients we work with meet our benchmarks.



INFORMAL STAFF REPORT

MEMORANDUM

To: Audit Committee

Thru: Margle C. Rose, City Manager *MR*

From: Sylvia Carrillo-Treviño, Assistant City Manager *SC*

From: Jim Davis, Fleet Director *J*

Date: September 6, 2017

Subject: Audit Response – Fleet Audit Response

Issue/Problem:

The recently completed Fleet Department Audit resulted in the following findings:

A.2 Recommendation: *The City Manager could bring the City's budget policy into compliance with state law and GFOA best practices by including a requirement for departments to create budget that allow as clear a comparison as practicable between expenditures included in the proposed budget and actual expenditures for the same or similar purposes made for the preceding year. Adding performance measures to the Budget Department related to accuracy in estimating expenditures would further strengthen the City's budget policy.*

Excerpt from the Audit:

"Management (the Fleet Director, the Budget Director and the Assistant City Manager) states that overbudgeting allows for uncertainties and fluctuations in fuel prices; however, the City's budget policy allows internal service funds to maintain a fund balance of 3% of annual appropriations to cover unforeseen circumstances."

Response: The City's budget policy is in compliance with State Law.

The Local Government Code, Section 102.003 requires the budget officer (i.e. the City Manager) to itemize the budget to allow as clear a comparison as practicable between

Appendix C - City Manager Responses

expenditures included in the proposed budget and actual expenditures for the same or similar purposes made for the preceding year.

The Government Finance Officers Association (GFOA) recommends that budget projections should "strive for accuracy by coming as close as possible to the actual outcome."

The Fleet Department budget is based on historical utilization. In years where the fund balance is above the 3% mark, is due to extreme fluctuation of prior historical actuals that are then adjusted downward in the following year. Further, the annual rebating of funds from the Fleet Budget into paying departments such as Police, are further evidence that an annual review of this fund takes place. I caution that in events of natural disaster where fuel shortages will cause fuel prices to dramatically increase, the 3% threshold will be exceeded quickly.

***D.2 Recommendation:** City could strengthen financial controls by developing policy for the creation and use of funds, organizational units, and mission elements.*

Response: The City does not arbitrarily create funds, organizational units, or mission elements. Each department must present any changes to their organizational or financial structure to the executive team, and ultimately, the City Manager for approval to ensure the City's overall mission and goals are met.