

Presented To:	Audit Committee
Presented:	Tuesday, Sep 15, 2020
Report Date	Tuesday, Sep 01, 2020
Type:	Managers' Reports

## Request for Decision

### Performance Audit of Fleet Services

#### Resolution

THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled "Performance Audit of Fleet Services" from the Auditor General's Office, presented at the Audit Committee meeting on September 15, 2020.

#### Signed By

**Auditor General**  
Ron Foster  
Auditor General  
*Digitally Signed Sep 1, 20*

#### Relationship to the Strategic Plan / Health Impact Assessment

This report supports the strategic goal of asset management and service excellence as well as the following supporting initiatives:

1. Optimizing Asset Service Life Through the Establishment of Maintenance Plans;
2. Establishing Sustainable Asset Service Levels to Assess Results from Maintenance and Renewal Efforts; and
3. Demonstrating Innovation and Cost-Effective Service Delivery.

#### Report Summary

In addition to the positive steps taken since 2016, this audit identified further opportunities to improve value for money in the operations of Fleet Services. We encourage management to continue to implement practices to align Fleet Services with the City's Enterprise Asset Management Policy.

#### Financial Implications

No Financial Implications.

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# Performance Audit of Fleet Services

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September 1, 2020

Final Report

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## OBJECTIVE

To assess the extent of regard for economy, efficiency and effectiveness within the operations of Fleet Services.

## BACKGROUND

Fleet Services is a section of the Finance, Assets and Fleet Services Division and is responsible for the maintenance of over 800 vehicles and pieces of equipment. It is also responsible for the acquisition and disposal of the general fleet (excluding transit buses and emergency vehicles) as well as supply of fuel and maintenance of six fueling stations. The section has 54 staff that provide maintenance services at the main garage on Lorne Street and another four mechanics that work from regional depots. Financial results for the section are shown below.

	2016		2017		2018*		2019	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<b>Revenues \$(000s)</b>	(528)	(863)	(686)	(605)	(625)	(859)	(999)	(971)
<b>Salaries &amp; Benefits</b>	3,946	4,087	4,098	3,962	5,743	5,589	5,394	5,143
<b>Purchased Materials</b>	3,900	4,855	4,062	4,811	5,691	6,824	6,285	8,337
<b>Energy Costs</b>	27	32	30	33	22	29	26	25
<b>Prof. Dev. &amp; Train.</b>	12	14	0	0	0	0	0	0
<b>Purchased Services</b>	0	0	0	17	3	18	3	25
<b>Financial Expenses</b>	0	66	0	30	0	19	0	10
<b>Reserve &amp; Capital</b>	2,585	2,680	2,710	2,605	2,752	2,840	3,207	3,290
<b>Internal Recoveries</b>	(9,424)	(9,470)	(9,714)	(9,671)	(13,263)	(13,272)	(13,707)	(13,717)
<b>Net Expenses \$(000s)</b>	518	1,401	500	1,183	323	1,188	209	2,142
<b>Net Recovery</b>	90.0%	80.7%	89.1%	84.4%	97.6%	91.8%	98.5%	86.5%

*\*Responsibilities for maintenance of the transit fleet and ambulances for Manitoulin-Sudbury District were added in 2018.*

## METHODOLOGY & SCOPE

This audit included interviews of staff, analysis of policies, procedures, reports and data, and tests of controls for January 1, 2016 to December 31, 2019. It also included a review of a report from Notiform Inc. which was engaged to conduct a business process review of the Fleet Services section in 2019. This audit excluded the acquisition and disposition of the City's transit, fire and paramedics fleet which are responsibilities of divisional staff.

## EXECUTIVE SUMMARY

In addition to the positive steps taken since 2016, this audit identified further opportunities to improve value for money in the operations of Fleet Services. We encourage management to continue to implement practices to align Fleet Services with the City's Enterprise Asset Management Policy.

## AUDIT STANDARDS

We conducted our audit in accordance with Generally Accepted Government Auditing Standards which require that we adequately plan audits; properly supervise staff; obtain sufficient, appropriate evidence to provide a reasonable basis for audit findings and conclusions; and document audits. For further information regarding this report, please contact Ron Foster at the City of Greater Sudbury at 705-674-4455 extension 4402 or via email at [ron.foster@greatersudbury.ca](mailto:ron.foster@greatersudbury.ca)

## **OBSERVATIONS AND ACTION PLANS**

### **A. Mandate of Fleet Services**

Fleet Services maintains the fleet and equipment used to deliver municipal services. While its mandate also includes the assessment, acquisition and disposal of fleet and equipment, its authority to manage fleet and equipment as a corporate asset is presently unclear.

Fleet services has lead responsibility for enabling service delivery through the provision of vehicles and equipment and maintaining them to maximize uptime and to support efficiency and productivity in municipal operations. Operating departments have the lead responsibility for assessing the need and suitability of fleet and equipment that are required to meet the service expectations expressed by Council.

#### **Observations:**

Fleet Services staff have persuaded some users to rationalize and reduce their level of fleet when units came due for replacement. These efforts have resulted in higher utilization of existing units and lower charges for fleet to users such as By-law Services. This audit determined that at least one operational division has been leasing vehicles in recent years rather than purchasing them. Fleet Services staff presently have no involvement in long term rental or lease decisions which may not give adequate consideration to all relevant costs to the corporation.

#### **Recommendation:**

1. Establish a policy to clearly establish Fleet Services as having lead accountability for all vehicle and equipment acquisitions, maintenance and disposals;
2. Develop a formal replacement policy for fleet to ensure that all relevant factors such as age, condition, utilization, need, suitability and lifecycle costs are consistently considered during replacement decisions; and
3. Develop a formal policy requiring all proposed long-term leases to be submitted to the Director of Assets and Fleet Services for formal approval prior to being executed to ensure these decisions are supported by a business case that considers all relevant costs to the corporation.

#### ***Management response and action plan:***

*Agreed. Management have implemented business processes that define the acquisition and disposal of vehicles and equipment. These business processes consistently consider all relevant factors when replacing vehicles and equipment. Although the business processes have been implemented, they have not been formalized in a policy. Management will produce an Acquisition and Replacement policy that reflects the business processes performed and addresses these recommendations.*

### **B. Asset Management**

Regulation 588/17 requires municipalities to develop Asset Management Plans (AMPs) for their infrastructure assets, to manage their life cycle costs and to communicate the service levels for these assets to residents. In April 2018, staff presented an Enterprise Asset Management Policy to, among other things:

- Establish full life-cycle costing principles aligned with asset management strategies that minimize ownership costs over the asset's service life;
- Maintain assets in order to deliver defined levels of service that meet legislative requirements and customer expectations; and
- Establish clear connections to the long-term financial plan and related financial policies.

## Observations:

Since 2016, the City has spent \$16 million replacing its general fleet and \$8 million on its transit fleet compared to the \$28 million for general fleet and \$15.5 million for transit fleet recommended by KPMG to renew fleet assets that were at or near the end of their useful lives in 2016. As less than \$300,000 of uncommitted funds were available in the City's reserves for the renewal of fleet at the end of December 2019, it is unlikely that much progress will be made updating the City's aging fleet in the near future unless more funding becomes available from the upper tiers of government<sup>1</sup> or additional funds are directed to capital budgets. As a result, staff will continue to have to operate fleet and equipment that are at or near the end of their useful lives with high maintenance costs unless more funding becomes available or steps are taken to rationalize the City's fleet and equipment.

Benchmarking reports indicate that the City has more general fleet on a per capita basis and on a full-time equivalent basis than our municipal peers in Hamilton, London, Windsor and Thunder Bay as well as Chatham-Kent. Some, but not all of these differences can be explained by the fact that the City of Greater Sudbury is much larger geographically than its peers.

## Recommendations:

To reduce the City's investment in fleet to a more sustainable level and to lower its lifecycle costs:

1. Review the level of fleet with users such as Linear Infrastructure Services to rationalize their fleet by identifying opportunities to reduce spare units or to share units with other divisions;
2. Review the level and condition of the transit fleet to reduce spare units and to prioritize older units with high mileage for replacement; and
3. Work with operating departments to update the custodial use policy to reduce the personal use of City vehicles for travel to and from work. Operating departments should review policies with the goal of reducing the amount of custodial use of City vehicles for employees who are not on-call or who have low annual usage.

## Management response and action plan:

*Agreed, however management views the need for vehicles and equipment from the perspective of service delivery and not on a per capita basis. Consideration for geography, number of services delivered, scope of assets serviced and service levels need to be taken into account when defining an optimal level of vehicles and equipment. Fleet management reviews and will continue to review the level of usage with operating departments with an aim to providing service in an economical fashion. Through this process Linear Infrastructure Services and Transit Services have reduced their fleet by one heavy vehicle and one bus respectively in coordination with Fleet Services and will continue to look for further opportunities to optimize the fleet footprint without compromising service. As with all departments, Fleet management will continue to provide condition information to Transit management for their bus replacement decisions. Management will work with Human Resources and operating departments to update the Custodial Use Policy in an attempt to optimize the custodial use of City vehicles.*

## C. Cost Recovery

Fleet services estimates the amount of costs to be recovered for each item of fleet used by departments at the time of acquisition. For the general fleet, this estimate is based on the original capital cost, inflation, repairs, insurance and licensing during the unit's expected useful life. The overall recovery rate is currently set with the objective of recovering 85% of capital costs from user departments. As transit acquires its own fleet, they are only charged for maintenance costs on the transit fleet that are invoiced to the transit cost center. Fire services is charged for three maintenance staff and actual costs for maintenance on the fire

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<sup>1</sup> Ten transit buses will be replaced later this year under the Investing in Canada Infrastructure Program.

trucks since it also acquires its own fleet. Paramedic services also purchases its own vehicles, so is presently charged based on a rolling average of work order costs for its vehicles over the last two years.

**Observations:**

While the net recovery rate for Fleet Services improved from 80.7% to 86.5% between 2016 and 2019, almost \$6 million of costs were not recovered from user departments during this period. Cost recoveries declined from a high of 91.8% in 2018 to 86.5% in 2019 due to higher than expected maintenance costs on aging transit buses and higher than anticipated repairs on winter maintenance vehicles from record levels of snow in 2019.

**Recommendation:**

1. To ensure service delivery is accurately costed and programs are treated equitably, perform a rate review to maximize the accuracy of the charges to divisions such as Linear Infrastructure Services and to provide a more homogeneous rate structure for all divisions serviced including EMS, Fire and Transit; and
2. To ensure that programs that are cost-shared with the province reflect all relevant charges to maintain the City's fleet, update the rates to fully recover all eligible program costs.

***Management response and action plan:***

*Agreed. Management periodically performs a rate review for all classes of units that are acquired and maintained by Fleet Services. The last rate review for these units was performed in 2018. Management will undertake a review of the rates for the various classes of equipment in 2021 and reflect any adjustments in the 2022 budget. Emergency Medical Services is the only division that receives upper level government funding and will be reviewed as part of the rate review.*

**D. Maintenance of Vehicles and Supply of Parts**

In 2019, Notiform Inc. was engaged to conduct a business process review to document the current processes for the maintenance of the City's fleet and supply of parts, to benchmark these processes against existing industry standards and best practices, to identify gaps and issues and to recommend improvements. The recommendations from Notiform Inc. were reviewed during the planning and conducting phases of this audit.

**Observations:**

While most staff work out of the Lorne Street garage, four mechanics were assigned to work from public works depots across the City in 2019 to improve the timeliness of maintenance on snow plow trucks and to increase the availability of these trucks for service.

Fleet Services staff employs mainly senior technicians to perform maintenance functions and contracts out some functions during peak periods and when there is staff turnover. This audit determined that opportunities exist to improve the economy of maintenance services by changing the mix of staff and contractors for routine maintenance functions.

The responsibility for maintenance of the transit fleet was transferred to Fleet Services in 2018. While "running repairs" are now done outside of peak service periods for the transit fleet, opportunities exist to optimize the timing of repairs to maximize the number of buses available for service.

Fleet Services also employs three staff that work in the Parts department. In the last two years, a number of changes have been implemented to improve the purchase, handling and storage of inventory. Notwithstanding, the level of staffing in Parts is insufficient to support timely maintenance of the fleet.

**Recommendations:**

1. Review the mix of staff and contractors to identify opportunities to reduce the cost of routine maintenance;
2. Prepare a business case for a part-time helper in Parts to support timely maintenance of the fleet; and
3. Coordinate with Human Resources and Organizational Development staff to negotiate changes to schedules for maintenance staff to maximize the number of transit buses available for service during peak periods to allow management to reduce the number of spare buses.

**Management response and action plan:**

*Partially Agree. Management has made changes to permanent job classifications, employed apprentices, changed shift schedules and reporting locations in an attempt to increase efficiencies and optimize service delivery. Similarly, management has identified particular pieces of work which are more economically attained by contracting out. Management will continue to review the mix of contracted work, unlicensed employees, apprentices and licensed technicians in the future. Similarly, management will continue to monitor service demand as it relates to technician availability and adjust accordingly. Management recently completed a business process review that provides guidance on the allocation of human resources and alternatives to increasing the overall compliment by employing technology and vendor managed inventory solutions. Management will prioritize the need for the part-time helper recommendation and will include in the 2021 budget process if necessary.*

**E. Overall Management**

Notiform Inc. recommended that Fleet Services replace its current work order system which has limited functionality. We agree that the current system does not allow Fleet Services staff to effectively measure and manage the cost drivers for maintenance services.

**Recommendations:**

1. Develop key performance measures to measure the efficiency, effectiveness and economy of the overall Fleet Services function as well as the maintenance and parts activities; and
2. In conjunction with staff from the Information Technology Services and Finance Services Divisions, identify information systems options which will more effectively meet the requirements of Fleet Services staff.

**Management response and action plan:**

*Agreed. As part of the recently completed Fleet Business Process Review, it was determined that a new fleet work management system would be required. Current systems on the market allow for more vibrant data capture and reporting that will allow Fleet management to develop more robust performance measures in order to more actively monitor and manage the work processes. Management will be including this project in the 2021 Capital Budget.*

**Table 1 – Summary of Significant Risks**

Risk	Total No. of Risks	Risks Before Controls			Residual Risks After Controls		
		High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)	High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)
Reputation	0	0	0	0	0	0	0
Operational	11	11	0	0	2	8	1
Financial	11	11	0	0	2	8	1
Legal	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>22</b>	<b>22</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>16</b>	<b>2</b>

**Table 2 – Significant Risks**

Risk	Risk Description	Risks Before Controls	Residual Risks* After Controls
F1/O1	Insufficient capital funds may be available to replace aging vehicles and equipment to manage their lifecycle costs effectively	25	15
F2/O2	Fleet replacements decisions may not be supported by assessments of need and suitability for service	25	15
F3/O3	Fleet replacement decisions may not be supported by assessments of age, condition, usage, and risks of failure	25	10
F4/O4	Business cases may not be required to support leases or longer term rentals	17.5	12
F5/O5	Vehicles and equipment may not be repaired during non-peak service periods	20	12
F6/O6	Vehicles and equipment may not be repaired efficiently	17.5	10
F7/O7	Vehicles and equipment may not be repaired effectively	20	8
F8/O8	Vehicles and equipment may not be repaired economically	17.5	10
F9/O9	Controls over parts, supplies and fuel may not be effective	17.5	10
F10/O10	Parts may not be supplied in a manner that supports the timely delivery of maintenance services	20	12
F11/O11	Cost recovery for fleet services may be insufficient and distort the costs for other programs in the City	20	14.5

\* We recommend taking action to reduce residual risks that are higher than 10.



## Appendix 1 – Risk Assessment Criteria

Impact	Services	Technology	People	Strategic	Legal/Reputational	Financial
<b>Very Minor</b> (1)	<ul style="list-style-type: none"> <li>Less than 90% of service objectives achieved.</li> </ul>	<ul style="list-style-type: none"> <li>Minor disruptions of secondary systems or data loss or corruption.</li> </ul>	<ul style="list-style-type: none"> <li>Minor reportable employee injury.</li> <li>Increase in number of union grievances.</li> </ul>	<ul style="list-style-type: none"> <li>Minor instances of actions that are at odds with strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>Small amount of negative media coverage or complaints to City.</li> <li>Non-lasting damage or no reputational damage</li> <li>Theft or Fraud under \$1,000.</li> </ul>	<ul style="list-style-type: none"> <li>Uninsured loss, cost overruns or fines &lt; \$10K</li> <li>Insured loss &lt; \$100K</li> <li>Loss of replaceable asset.</li> </ul>
<b>Minor</b> (2)	<ul style="list-style-type: none"> <li>Less than 75% of service objectives achieved.</li> <li>Unable to perform non-essential service.</li> </ul>	<ul style="list-style-type: none"> <li>Disruptions of systems or data loss or corruption</li> <li>Disclosure of non-confidential but embarrassing information.</li> </ul>	<ul style="list-style-type: none"> <li>Reportable employee injury.</li> <li>Loss of key staff but able to recruit competent replacements</li> <li>Significant increase (&gt;10%) in number of union grievances.</li> </ul>	<ul style="list-style-type: none"> <li>Instances of actions at odds with strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>Complaints elevated to the Director level.</li> <li>Short-term repairable damage to City's reputation</li> <li>Public outcry for discipline of employee.</li> <li>Moderate amount of negative media coverage</li> <li>Theft or Fraud of \$1,000 to \$10,000.</li> </ul>	<ul style="list-style-type: none"> <li>Uninsured loss, cost overruns or fines of \$10K to \$100K</li> <li>Insured loss &lt; \$100K - \$1M</li> <li>Inefficient processes</li> <li>City's actions result in reduced economic development.</li> </ul>
<b>Moderate</b> (3)	<ul style="list-style-type: none"> <li>Less than 60% of service objectives achieved.</li> <li>Unable to perform essential service but alternatives exist.</li> </ul>	<ul style="list-style-type: none"> <li>Disruptions of significant systems or data loss or corruption</li> <li>Recoverable loss from important system.</li> </ul>	<ul style="list-style-type: none"> <li>Multiple employee injuries or long-term disability from one incident.</li> <li>Inability to retain or attract competent staff.</li> <li>Increase in stress leave, sick leave or WCB claims.</li> <li>Work-to-rule union disagreement or short-term strike.</li> </ul>	<ul style="list-style-type: none"> <li>Numerous actions are at odds with strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>Public/media outcry for removal of management</li> <li>Long-term damage to City's reputation</li> <li>Citizen satisfaction survey indicates unacceptable performance.</li> <li>Complaints elevated to Council level.</li> <li>Results inconsistent with commitments made to citizens</li> <li>Theft or Fraud under \$100,000.</li> </ul>	<ul style="list-style-type: none"> <li>Uninsured loss, cost overruns or fines of &gt;\$100K to \$1M</li> <li>Insured loss &gt;\$1M to \$10M</li> <li>Having to delay payments to contractors/suppliers.</li> <li>&gt;20% current demands cannot be services with existing and approved infrastructure.</li> <li>City's actions results in lost revenue for significant number of City businesses.</li> </ul>

Impact	Services	Technology	People	Strategic	Legal/Reputational	Financial
<b>Major (4)</b>	<ul style="list-style-type: none"> <li>Less than 45% of service objectives achieved.</li> <li>Unable to perform an essential service where no alternative exists.</li> </ul>	<ul style="list-style-type: none"> <li>Unrecoverable loss of information from important system.</li> <li>External exposure of important information</li> <li>Unavailability of significant systems or data loss or corruption.</li> </ul>	<ul style="list-style-type: none"> <li>Serious injury of one or more employees</li> <li>Legal judgment against the City in workplace matter.</li> <li>Turnover of key employees</li> <li>Sustained strike of services.</li> </ul>	<ul style="list-style-type: none"> <li>Numerous actions are significantly at odds with the strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>Public/media outcry for change in CAO or Council</li> <li>Public or senior officials charged or convicted</li> <li>Legal judgment against the City in a workplace matter</li> <li>Integrity breach resulting in decreased trust in City Council or Administration.</li> <li>Theft or Fraud &gt;\$100,000</li> </ul>	<ul style="list-style-type: none"> <li>Uninsured loss, cost overruns or fines of &gt;\$1M - \$10M</li> <li>Insured loss of &gt;\$10M - \$100M</li> <li>Unable to pay employees and contractors on a time.</li> <li>Failure to maintain financial capacity to support current demands.</li> <li>City's actions impair local economic conditions.</li> </ul>
<b>Extreme (5)</b>	<ul style="list-style-type: none"> <li>Less than 30% of service objectives achieved.</li> <li>Unable to perform several essential services where no alternatives exist.</li> </ul>	<ul style="list-style-type: none"> <li>Unrecoverable loss of information from critical system.</li> <li>External exposure of confidential information</li> <li>Unavailability of critical systems or data loss or corruption.</li> </ul>	<ul style="list-style-type: none"> <li>Death of an employee</li> <li>Major legal judgment against the City in workplace matter.</li> <li>Significant turnover of key employees with ELT</li> <li>Sustained strike of key services</li> </ul>	<ul style="list-style-type: none"> <li>Many actions are significantly at odds with the strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>Public/media outcry for change in CAO or Council</li> <li>Senior officials criminally charged or convicted</li> <li>Severe legal judgment against the City in a workplace matter</li> <li>Major integrity breach resulting in complete loss of trust in City Council or Administration.</li> <li>Theft/Fraud &gt;\$1,000,000</li> </ul>	<ul style="list-style-type: none"> <li>Uninsured loss, cost overruns or fines &gt;\$10 M</li> <li>Insured loss &gt; \$100M</li> <li>File for bankruptcy</li> <li>Failure to maintain financial capacity to support current demands.</li> <li>City's actions significantly impair local economic conditions.</li> </ul>

Likelihood	Unlikely (1)	Possible (2)	Probable (3)	Likely (4)	Very Likely (5)
	Less than 20%	>20% but < 40%	>40% but < 60%	>60% but < 80%	80% or more
	Less frequent than every 10 years	May occur in the next 2 years	Will occur this year or next year at least once	May occur regularly this year	Will occur within a matter of months may reoccur often