



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF FLEET MAINTENANCE UTILIZATION AND CONTRACT MANAGEMENT

Report Highlights

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2017.

What We Found

We noted that terms of the Fleet Maintenance Contract are properly monitored and enforced, and costs are billed in accordance with the contract.

Report Number: 2017-A-08

Date Issued: 05/01/2017

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Fleet Maintenance Utilization and Contract Management. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found that terms of the Fleet Maintenance Contract are properly monitored and enforced, and costs are billed in accordance with the contract procedures. In addition, controls over fuel utilization and vehicle replacement and utilization, and the practices thereof, are adequate and reasonable. Prior audit findings have been addressed; we have no recommendations for improvement at this time.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

cc: Ms. Karen Myers, Director of Procurement
Mr. Warren Patrick, Fleet Manager
Mr. Robert Sandlass, Treasurer



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REVIEW RESULTS

We have audited Fleet Maintenance Utilization and Contract Management for the period of 7/1/2015 through 12/31/2016 with the objective that the terms of the contract between the County and the Fleet vendor are properly monitored and enforced.

Our opinion, based on the evidence obtained, is that terms of the Fleet Maintenance Contract are properly monitored and enforced, and costs are billed in accordance with the contract. In addition, controls over fuel utilization and vehicle replacement and utilization, and the practices thereof, are adequate. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Target costs are improperly charged as Non-target costs, circumventing the Not to Exceed Amount (NTE).	<ul style="list-style-type: none"> • The fleet manager approves all non-target services. • The Fleet Division reviews invoiced charges each month. • Departmental fleet liaisons are provided monthly usage reports for review 	Satisfactory Satisfactory Satisfactory
Unnecessary maintenance or repairs are performed	<ul style="list-style-type: none"> • The fleet manager approves all non-target services 	Satisfactory
Target Costs exceed the annual NTE.	<ul style="list-style-type: none"> • Changes to the NTE amount must be approved in writing by Procurement and the contractor. • 1/12th of the NTE is paid each month 	Satisfactory Satisfactory
Parts and equipment inventory are susceptible to theft.	<ul style="list-style-type: none"> • An inventory is performed periodically by Facilities and Operations • Inventory lists are kept up to date by the contractor. 	Satisfactory Satisfactory
Missed preventive maintenance creates an employee or public safety hazard.	<ul style="list-style-type: none"> • A Preventative Maintenance schedule is developed by the Fleet Manager and maintained in the Fleet Maintenance System. • A Report is produced monthly detailing missed standard preventative maintenance. 	Satisfactory Satisfactory
Assets are underutilized resulting in unnecessary fleet charges.	<ul style="list-style-type: none"> • The Fleet Manager generates reports to identify underutilized equipment. 	Satisfactory

Although no issues were noted for remediation, management has been provided an opportunity to respond to this report. Since there were no issues to report; management has opted not to provide a response.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

Fleet Management is a division of the Department of Procurement. The Division provides oversight to, and administers fleet management and maintenance of the County's inventory of approximately 1,200 automobiles, light trucks, heavy equipment and lawn care items. Fleet Management has outsourced the maintenance and repair services using an incentive-type contract with a fixed annual cap on target services to a Fleet Maintenance Contractor.

Under the contract, maintenance services are segregated into contract and non-contract services. Per the Request for Proposals (RFP) related to the contract under audit, contract services "include routine fleet management, preventive maintenance and repair activities that are reasonably predictable." These services are subject to an annual maximum. Non-contract services, per the RFP, "include accident repairs, unit modifications, and repairs occasioned by vandalism, driver abuse, or acts of nature; they are variable and not predictable, but dependent on the actions or decisions of County unit operators and managers." The County reimburses the contractor for non-target services authorized in advance by the Fleet Manager. In addition, the County is responsible for the cost of maintenance of the shop facilities, cost of shop utilities, and approving the purchase of and cost of new equipment; all of which are considered non-target costs. There is no contractual maximum for non-contract services. The total contract and non-contract amounts paid for fiscal year 2016 were \$2,240,301 and \$1,061,500, respectively.

Fleet oversees the Fuel Management system and its nine fueling locations around the county. Per the Procurement Department website, on average, the County uses a total of 1.2 million gallons of unleaded and diesel fuel products per year.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit is to determine if terms of the Fleet Maintenance Contract are properly monitored and enforced, and costs are billed in accordance with the contract and to evaluate the efficiency and effectiveness of the vehicle replacement and utilization. The review will also address Fuel Utilization. In 2016, Harford County engaged fleet management specialist Mercury Associates, Inc. (Mercury) to conduct an independent assessment of the fleet management practices of Harford County Government. In January 2017 Mercury issued their findings and recommendations in three separate component reports. We evaluated the objectives and scope of Mercury's work, as well as the

assumptions, methods, and findings described in the reports, and compared them to our identified objectives/risks. We also considered the professional qualifications of Mercury and noted that they appear to be reasonable. We determined we could rely upon the work done by Mercury to address our audit objectives related to vehicle replacement and utilization and fuel utilization. Our review consisted of procedures to address the accuracy of invoices and inventory. In addition, due to the narrow scope of this review, we relied on the assessment of the design of controls as evaluated by Mercury.

The audit focused on activity during the period of 7/1/2015 through 12/31/2016. Our audit procedures included interviewing personnel, observation and testing. Specifically, we met with the Fleet Management Division employees to understand the procedures for monitoring the fleet maintenance contractor. Based on our understanding of the underlying processes and data analysis, we selected a sample of work orders and verified the information agreed to both the supporting documentation (e.g., parts receipts) and the billing reports and work orders were not processed in duplicate. We determined if the services performed were properly categorized as contract or non-contract, and if the amount billed was calculated correctly. We also determined if the Fleet Manager approved all non-contract services provided by the contractor. We performed these procedures to determine if amounts billed were for services provided and parts purchased.

We confirmed a physical inventory of shop equipment was performed in the last year and we observed selected shop equipment items to confirm their existence.

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient 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 Team:

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CPA, CIA, CGAP, CISA, CGFM, CRMA
County Auditor

Brad DeLauder, CPA
Senior Auditor