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Auditor

SPECIAL ADVISORY REPORT

Fleet Management Consolidation

SUMMARY OF SERVICE

A Special Advisory Report (SAR) provides information on limited reviews or time-critical assessments, investigations or evaluations. While not always in full compliance with rigorous audit reporting standards, SAR's are non-audit services that further the accountability of the City by providing a reporting vehicle that is flexible, quickly issued, and focused on singular issues.

KEY ISSUE

The purpose of this non-audit service was to provide objective analysis of and observation on the feasibility of consolidating the City's fleet management operations under one department. The information provided in this review was developed based on the topic of fleet management consolidation identified during a performance audit of the City and County of Denver's Vehicle Fleet Management program.¹

RESULTS IN BRIEF

As the City continues to experience serious budget constraints due to the current local economic environment, it is imperative that City officials consider enhancing efficiencies of fleet management operations. Budgetary challenges are common nationally as local

Consolidation
promotes
efficiency and
financial
stability

governments struggle with budget deficits and tough spending decisions. Fleet managers across the nation are utilizing techniques such as fleet consolidation, privatization, managed competition, fleet size and utilization reviews, outsourcing selected services, and relying on best practices information from various sources including performance audits that have recommendations for modernizing fleet operations.²

The prospective consolidation of citywide fleet operations, similar to the Procure to Pay (P2P) initiative, would bring efficiency and economy to the City through improved economies of scale. Consolidation would create efficiency by streamlining and reducing the overall management costs and enhance performance through centralized oversight of key components of fleet management. However, the specialized nature of Safety fleet management would need to be incorporated and prioritized as part of consolidation efforts in order to maintain the necessary level of emergent service needs required by the citizens of the City and County of Denver.

As demonstrated by the results of other cities surveyed, there is evidence that consolidating City fleet management operations can yield increased efficiency and sustainability.

¹ City Vehicle Fleet Management Audit, January 2011.
<http://www.denvergov.org/Portals/3/documents/City%20Fleet%20Management%20Audit%2001-20-11.pdf>.

² American Public Works Association (APWA) Reporter Online Article, November 2003 - *National challenge for fleet managers: "Best service at lowest cost"*.

METHODOLOGY

We utilized the following methods for this review:

- Reviewed the 2010 City Vehicle Fleet Management audit;
- Interviewed City employees from Public Works, the Department of Safety, and Budget and Management;
- Evaluated department budgets and other financial information;
- Reviewed industry literature related to fleet management;
- Discussed the concept of consolidation with fleet management officials in other municipalities;
- Conducted a survey of other cities with consolidated fleet operations;³
- Reviewed Denver Revised Municipal Code, Fiscal Rules and Executive Orders; and
- Reviewed Department of Safety Collective Bargaining Agreements (CBA).

This review did not include the Department of Aviation's fleet because of the wide disparity between Federal oversight requirements and Municipal oversight requirements. For example, the Denver Fire Department located at DIA must be trained and certified in Aircraft Rescue and Firefighting as prescribed by the Code of Federal Regulations Part 139.⁴

OVERVIEW/BACKGROUND

The City and County of Denver (City) fleet consists of more than 4,000 vehicles,⁵

³ Cities benchmarked were Englewood, CO, San Diego, CA, Littleton, CO, Columbus, OH, Boise City, ID, and Austin, TX.

⁴ In 2004, FAA issued a final rule that revised the Federal airport certification regulation Title 14, Code of Federal Regulations (CFR), Part 139 establishing certification requirements for airports serving scheduled air carrier operations in aircraft designed for more than 9 passenger seats but less than 31 passenger seats.

⁵ The City's fleet includes approximately 1,900 units managed by Public Works, approximately 1,300 managed by the Department of Safety, and 872 units managed by the Department of Aviation. Information gathered from the 2010 Budget Book, Public Works' fleet management database, and the city website <http://www.denvergov.org/RentaCityVehicle/tabid/433539/Default.aspx>.

which provide specialized services to citizens used to conduct City business. Fleet management responsibilities for the City's fleet are decentralized with responsibilities divided among the Department of Public Works Fleet Maintenance Division (PW Fleet), the Department of Safety,⁶ and the Department of Aviation.

In 2010, City departments with fleet management operations (excluding DIA) had combined fleet operations totaling just under \$30 million with PW Fleet accounting for 63.3% or approximately \$20.7 million⁷ of the total operation. The remainder, \$9.3 million, was budgeted for fleet operations in the Department of Safety.⁸

In addition to fleet maintenance activities, PW Fleet responsibilities include:

- Managing and billing agencies for the use of City motor pool vehicles;
- Monitoring and tracking fleet utilization;
- Management and maintenance of fleet databases;⁹
- Purchasing and distributing fuels, parts and supplies; and
- Procuring and disposing vehicles and equipment.

Daily operations of PW Fleet are accounted for using the proprietary fund structure of internal service funds (ISF). ISF accounts for operations that provide goods and services to other departments within the same government whereas; the Denver Police Department (DPD) Fleet Maintenance Division¹⁰ and Denver Fire

⁶ The Department of Safety consists of the Denver Police, Sheriff and Fire Departments.

⁷ Unaudited budget information provided by the Department of Public Works.

⁸ Unaudited budget information provided by the DFD, DPD, and DSD Divisions of the Department of Safety.

⁹ Database maintenance and support is also performed for Department of Safety fleet operations.

¹⁰ DPD Fleet Maintenance Division also maintains Sheriff units.

Department (DFD) operations are directly funded by the general fund.

As an internal service fund, PW Fleet accounts for fleet management services provided to City agencies on a cost reimbursement basis. PW Fleet Maintenance Division currently charges agencies such as the Department of Parks and Recreation and the Motor Pool for services through the internal billing transfer process. Agencies that use these services budget and account for them primarily through general fund appropriations.

OPPORTUNITIES EXIST TO INCREASE EFFICIENCY THROUGH FURTHER CONSOLIDATION

The Citywide Fleet Management audit report, released in January 2011, highlighted the need to improve controls and monitoring of city vehicles. Further consolidation would provide a platform to improve the control environment surrounding fleet management.

Some of the City's Fleet Management Operations are Currently Consolidated

While the City currently operates with a decentralized fleet management model, 63% of fleet management activities outside of maintenance are consolidated and managed by PW Fleet. These activities include:

63% of fleet management operations consolidated

- Fleet management information systems;
- Access to the PW fuel software system that tracks, monitors, and administers fuel usage for all city vehicles;
- Purchase of fuel;
- Vehicle replacement fund;
- The City's annual vehicle auction; and

- Responsibility for all vehicle repairs and service work for agencies other than Safety and Aviation.

Other Municipalities Have Experienced Benefits from Fleet Consolidation

Auditors discussed the impact of fleet consolidation with vehicle fleet administrators in several municipalities. As part of the City Vehicle Fleet Management¹¹ audit, we conducted a benchmarking analysis that included the topic of fleet consolidation.¹² Nearly 80% of the cities and counties surveyed had centralized fleet management. All of these municipalities with a consolidated management structure maintained light, medium and heavy-duty vehicles as well as police vehicles. However, only about half also included fire department fleets under a consolidated structure.

80% of cities and counties surveyed had centralized fleet management

For this study, we conducted additional benchmarking analysis using a sample of municipalities from around the country that have consolidated fleet management operations.¹³ In our sample municipalities, fleet management is consolidated in a single department. While the department responsible for fleet management varies, the most common were Public Works, General Services, and Fleet Services. In all of the municipalities we contacted, both police and fire fleets are consolidated under the department managing vehicle fleets.

¹¹ City Vehicle Fleet Management Audit, January 2011 <http://cms.denvergov.com/Portals/3/documents/City%20Fleet%20Management%20Audit%2001-20-11.pdf>.

¹² Cities benchmarked were Washoe County, NV, Thornton, CO, Fairfax County, VA, Peoria County, IL, Long Beach, CA, Aurora, CO, Oklahoma City, OK, Austin, TX, and Des Moines, IA.

¹³ Cities benchmarked were Englewood, CO, San Diego, CA, Littleton, CO, Columbus, OH, Boise City, ID, and Austin, TX.

For the two most recent consolidations, one was accomplished through a Business Process Re-engineering (BPR) and one occurred as the result of an audit recommendation from an outside consultant. In the first case, police and fire personnel under a collective bargaining agreement (CBA) were actively involved in the BPR process. No other cities indicated an impact on personnel represented by a CBA because of fleet consolidation.

Several of the cities in our survey indicated that management controls over certain aspects of fleet management had been centralized under one department. For example, in Table 1 below, 50% of cities surveyed reported central control of take-home vehicles, utilization and replacement; while only one city did not exercise control over any of the aforementioned activities.

City	Table 1 - Centralized Controls		
	Take-home Vehicles	Vehicle Utilization	Vehicle Replacement
Englewood, CO	Yes	Yes	Yes
San Diego, CA	No	No	Yes
Littleton, CO	No	No	Yes
Columbus, OH	No	No	No
Boise, ID	Yes	Yes	Yes
Austin, TX	Yes	Yes	Yes

Infrastructure and Logistics Support Consolidation

The main fleet operations for PW Fleet, DPD, and DFD are centrally located at the Roslyn facility with additional satellite locations strategically placed throughout the city. Although, the main operations are not consolidated, the immediate proximity supports the feasibility of future consolidation that would allow specialized functions within DPD and DFD to retain their current operational structure yet benefit from central management and oversight.

Under a consolidated fleet management function, an internal service fund structure would be used for all fleet management operations. If fleet management for all City agencies other than DIA is consolidated under the Department of Public Works, the Department of Safety agencies would then budget and account for fleet services through internal billing transfers instead of the current process where these agencies budget separately for personnel, capital equipment purchases, services, materials and supplies.

Fleet Consolidation Could Bring Significant Budgetary and Operational Benefits

Municipal fleet administrators we surveyed identified a significant number of benefits from consolidating city fleet operations under one department. Efficiency was maximized through reduced operating costs and fleet size and duplication of effort and created opportunities to share resources, expertise, and infrastructure. Additional benefits were realized by eliminating duplication of resources, leveraging additional purchasing power, and centralizing policies and procedures for vehicle maintenance and replacement.

In addition to the benefits listed above, several of the municipalities with consolidated fleet management have experienced quantified cost savings. The size of the savings varied as a direct result of the relative size of the entity and its fleet. Ranges included a savings of about \$100,000 annually by the City of Boise, ID to an annual reduction in fleet costs of \$3.5 million in San Diego, CA.

Nationally Recognized PW Fleet Operations Should Ease Consolidation Concerns

PW Fleet Management has received national recognition from industry associations for excellence in fleet management operations demonstrating a highly respected level of operational

expertise. In 2009, the *100 Best Fleets Program*¹⁴ recognized the Department of PWs' Fleet Maintenance Division for excellence in operations and fleet management as the second best public sector fleet in North America. The award recognizes and rewards peak performing public sector fleet operations. In addition, the American Public Works Association named the Fleet Director Professional Manager of the Year.

Locally, the PW Fleet Division has also embraced the Mayor's Greenprint Denver Initiative through purchasing vehicles that utilize alternative fuels and sustainable technologies.¹⁵ In fact, the Division has received awards for being one of the top ten "green" fleets in North America.¹⁶

The City is Consolidating other Citywide Functions to Improve Efficiency

The City is currently implementing the consolidation of accounts payable and procurement processes. In September 2010, Procure to Pay (P2P) was implemented citywide. The premise of P2P is to standardize and consolidate the accounts payable and procurement processes based on agency and industry best practices to improve efficiency and economy throughout the City. Some benefits of P2P will include improved:

- Focus on agency level core functions;
- Vendor relationships;
- Price negotiations;
- Financial controls;
- Late payments to vendors; and
- Efficiency in procurement processes citywide.

¹⁴ The 100 Best Fleets Organization recognizes excellence in government fleet management in overall best fleet and green fleet categories based on a variety of criteria.

¹⁵ The Greenprint Denver Initiative was announced in 2006 by Mayor John Hickenlooper in an effort to increase energy efficiency and reduce emissions produced by City activities.

¹⁶ The 100 Best Fleets Organization recognizes excellence in government fleet management in overall best fleet and green fleet categories based on a variety of criteria.

MOST BARRIERS TO CONSOLIDATING FLEET CAN BE OVERCOME

Surveyed fleet administrators also noted a few disadvantages to consolidation including some initial resistance, added scrutiny of method used to charge for fleet services, and some additional administrative challenges.

Potential Impact of Consolidation on Public Safety Operations

Currently, DPD and DFD operate under separate collective bargaining agreements (CBA). DPD mechanics are not included in the CBA, and are therefore, City Career Service Authority employees. However, DFD mechanics are included as classified service for rank and grade by their CBA providing certain job protections.

The timing of contemplating consolidation and the impending expiration of the DFD CBA on December 31, 2012, are conducive for reaching agreement on the terms and conditions for DFD mechanics.

The impact on safety operations will depend largely on how the DPD and DFD fleet maintenance mechanic and service technicians are incorporated into a consolidated structure. Each department's staff have fleet maintenance skill sets specific to the needs of the Department of Safety and should be retained to appropriately maintain and service safety vehicles and equipment.

Previous Attempts to Consolidate Fleet Have Been Limited in Scope and Impact

Consolidation of fleet management duties and responsibilities between PW and Safety is an issue that has been discussed by City officials in recent years. However, in the past, PW and Safety representatives have been unable to take progressive steps forward beyond initial discussions. For example, in 2009, an effort was made to consolidate parts and inventory management, but that initiative did not move

forward because the departments involved could not agree upon terms, administrative functions, duties, and responsibilities. Some of the obstacles noted that would require resolution in order to consolidate City fleet management operations include:

- Specialty equipment requirements related to DPD and DFD operations;
- Concerns about priority of repairs and criteria and responsibilities for setting the priority;
- The DFD collective bargaining agreement; and
- The need for additional support from the Mayor's Office, PW and Safety in the form of a strategic plan to move forward with consolidation.

MAYOR'S OFFICE SHOULD TAKE FURTHER ACTION TO CONSOLIDATE CITY FLEET

The Mayor should undertake a personnel and governance assessment to examine the feasibility and appropriate timing of consolidating City fleet management operations.

The personnel assessment should address any necessary position reviews and classification changes to eliminate any duplication of efforts, retain specialized skill sets, and resolve CBA issues regarding DFD mechanics. Additionally, the governance assessment should evaluate the appropriate language required to develop an ordinance and related policy and procedure clarifying roles and work priorities under a consolidated fleet operation.

The City Budget and Management Office (BMO) should be enlisted as a resource to provide in-depth financial analysis and critical expertise for the review. Also, if budget funds are available, retain a subject matter expert consultant to aid in the analysis and implementation strategy to consolidate PW and Safety fleet operations.

ACKNOWLEDGEMENT

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