

Office of the City Auditor

CONSENT CALENDAR
October 26, 2010

To: Honorable Mayor and Members of the City Council
 From: Ann-Marie Hogan, City Auditor
 Subject: Audit: Equipment Replacement Fund – Sustainability and Transparency

RECOMMENDATION

Request the City Manager report back by April 2011 (and every six months thereafter) regarding the implementation status of each recommendation in the attached audit report until all recommendations have been reported implemented.

SUMMARY

The City's equipment replacement fund is managed by the Equipment Maintenance Division of Public Works. Equipment Maintenance also manages the City's vehicle and large equipment fleet, and provides all related maintenance, repairs and purchases. Following are the results of the performance audit of the equipment replacement fund.

Are Equipment Reserves Sufficient?

- 1) Equipment replacement reserves were only sufficient for the equipment replacement backlog, which totaled \$3.6 million as of December 31, 2009. (Finding 1) Millions of dollars of reserve money was used to pay for things not planned. (Finding 2) It is recommended that the City have an additional \$4.05 - \$5.45 million in reserve. (Finding 2)

Is Equipment Replacement Adequately Monitored?

- 2) Public Works does not have an accurate record of all the vehicles and equipment that are due or past due for replacement. (Finding 1) Replaced equipment is being kept without required written approval. (Finding 3) Equipment replacement charges were not always correct or sufficient. (Finding 5)

Are Needs of Users Met?

- 3) Generally, vehicle and equipment purchases met the needs of City departments. However, equipment purchases are made without evidence of stakeholder's approval of the specifications. Purchases without stakeholder approval can result in acquiring the wrong equipment. (Finding 4)

FISCAL IMPACTS OF RECOMMENDATION

The equipment replacement reserve had been used to pay for a general fund shortfall, salaries and benefits, and rental cars. The fees collected for the equipment replacement fund were not intended to pay for these additional costs. This resulted in the equipment replacement reserve having only \$167,000 truly available as of December 31, 2009. The recommended equipment replacement reserve is \$4.22 - \$5.62 million.

The City may be able to reduce some equipment maintenance and repair costs if staff reduce the number of pieces of backup equipment and replace equipment significantly past scheduled replacement. Total equipment maintenance cost for fiscal year 2009 was \$5.2 million. If reducing the size of the fleet by disposing of old equipment and backup equipment could achieve even a 2% reduction in repair and maintenance costs, the City would save over \$520,000 over the course of five years.

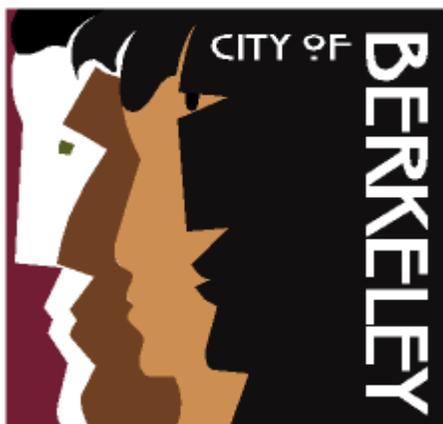
CONTACT PERSON

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Attachment:

1. Audit: Equipment Replacement Fund – Sustainability and Transparency

City of Berkeley



Equipment Replacement Fund – Sustainability and Transparency

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Presented to Council on October 26, 2010

Equipment Replacement Fund – Sustainability and Transparency
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I. EXECUTIVE SUMMARY

Audit Objective 1: Are the City’s equipment replacement reserves sufficient?

It is recommended that the City have an additional \$4.05-\$5.45 million in reserve. (Finding2)

The City’s equipment replacement reserves are only sufficient for addressing the equipment backlog, which totaled \$3.6 million as of December 31, 2009. (Finding 2)

Millions of dollars of reserve money was used to pay for things not planned. For example, equipment replacement reserve fees were used to pay for a general fund shortfall and the administration costs to run the equipment replacement program. (Finding 2)

Equipment replacement history was inadequate. (Finding 1)

Audit Objective 2: Is the City adequately monitoring equipment replacement activity?

Public Works does not have an accurate record of all the vehicles and equipment that are due or past due for replacement. (Finding 1)

Replaced equipment is being kept without required written approval. (Finding 3) Equipment replacement charges are not always correct or sufficient. (Finding 5)

Purchases without stakeholder approval can result in acquiring the wrong equipment. (Finding 4)

Audit Objective 3: Do procedures provide reasonable assurance that replacement vehicles and equipment meet the needs of the users?

Generally, vehicle and equipment purchases met the needs of City departments. However, equipment purchases are made without evidence of stakeholder’s approval of the specifications. (Finding 4) Inspections to determine if new equipment meets contract specifications, and that major components are working, are not documented. (Finding 4)

II. BACKGROUND

Monthly Equipment Replacement Fees

The City's equipment replacement fund is managed by the Equipment Maintenance Division of Public Works (PW). Equipment Maintenance also manages the City's vehicle and large equipment fleet, and provides all related maintenance, repair and purchases.

After departments purchase a vehicle or equipment, they pay a monthly fee for its future replacement. These funds are accounted for in internal service fund 860¹. Equipment replacement revenue is pooled. It is not accounted for by contributing department nor set aside for the replacement of specific equipment.

Equipment Replacement Fund 860

Establishing an equipment replacement fund is considered a best practice. It helps keep vehicle replacement funding requirements less volatile, and helps ensure vehicle replacement purchases are not deferred due to lack of funding. As of December 31, 2009, there were 429² vehicles and pieces of equipment in the equipment replacement program. PW estimated total equipment replacement costs to be \$28.1 million.

Having an equipment replacement fund is considered a best practice.

For fiscal year 2009, fund 860 had revenues of \$3.7 million, expenses of \$4.4 million, and an equipment replacement reserve of \$7.1 million.

Equipment Replacement Activities

The Equipment Replacement fund is managed by the Equipment Superintendent in PW. The Superintendent, a Senior Equipment Supervisor, a Senior Buyer in Finance-Purchasing, and a few support staff, perform the following:

- Bill equipment replacement fees,
- Buy replacement equipment,
- Arrange for the auction of equipment the City no longer wants, and
- Maintain vehicle and equipment information in the City's Fleet Management Module³ (FM). The FM module is used to inventory all City vehicles and equipment.

¹ Internal service funds are specifically designed for goods or services that are provided on a cost-reimbursement basis.

² Small equipment, such as push lawnmowers, and leased equipment, are not included in the equipment replacement program.

³ The Fleet Management Module is one of several modules from SunGard HTE, the City's accounting and management software.

PW staff establish the equipment replacement fees and input them into FM. Each month FM automatically collects the equipment replacement fees. PW sends monthly billing statements to the City departments' representatives. Representatives can review additional billing detail in FM.

Equipment Purchases and Disposal

Departments typically submit their vehicle replacement requests to the City Manager or the Deputy City Manager for approval. The Equipment Superintendent and the Director of PW authorize smaller purchases and those that are not too complex. Equipment and vehicles are disposed at auction.

III. FINDINGS AND RECOMMENDATIONS

Finding 1 Do We Know the Backlog and Cost?

Public Works has no means to readily identify equipment past due for replacement.

No Equipment Replacement Backlog Reports

Equipment backlog reports are needed to prioritize equipment replacement. PW does not have an accurate record of all the vehicles and equipment that are due or past due for replacement.

1. The custom report produced from FM includes equipment that has already been replaced and is retained as backup equipment.
2. Backup equipment is not identified as such in FM⁴.
3. The custom report can only generate one year of data at a time.

54 vehicles with estimated replacement cost of \$3.6 million are past due for replacement.

Inadequate Equipment Replacement History in Fleet Management

It is difficult to identify the replacement history for individual pieces of equipment in FM. This condition exists for two reasons:

1. **New Equipment:** When new equipment is input into FM, the equipment number for the replaced equipment is not always recorded or properly recorded where required.
2. **Replaced Equipment:** For replaced equipment, there is no link to the new equipment.

⁴ As of December 31, 2009, 54 vehicles with an estimated replacement cost of \$3.6 million were past due for replacement. (See Appendix B) About this much is spent on equipment replacement annually.

The ability to trace equipment replacement history would help ensure all replacement activity is correctly recorded and would enable analysis of replacement history.

Capital Budget

The purpose of the Capital Budget is “to assist Council with its long range planning efforts and decisions around capital expenditures.” The Capital Budget should represent the proposed spending plan for replacing specific equipment in the fiscal years of the upcoming budget. However, the equipment budget too often is largely a list of equipment coming due for replacement each year⁵. Although the equipment budget sometimes includes back logged equipment, this equipment is not identified as such, and nowhere does the budget identify the \$3.6 million of equipment past due for replacement.

Council is asked to make equipment replacement decisions without sufficient information.

City Manager’s Response to Finding

Agree.

Recommendation for Public Works and Information Technology and City Manager’s Response

- 1.1 At least annually, produce a citywide equipment replacement report that identifies all equipment due and past due for replacement. Also, provide departments with a version of this report specific to their department. Use this information to prioritize equipment replacement activity.

Agree to implement as long as Information Technology can write a program which will allow the reports to be quickly generated. Otherwise, Public Works does not have the staff to produce these reports. Will implement by December 2010, or soon after, pending when this project can be included in PW-IT work plan projects.

Recommendations for Public Works and the City Manager’s Response

- 1.2 Update Fleet Management records so that all backup equipment is identified as such in Fleet Management.

Agree. Will implement by July 2011.

⁵ The Capital Budget also reports scheduled equipment replacement on a fiscal year basis although the FM Module maintains this information on a calendar year.

- 1.3 In the equipment replacement schedules in the Equipment and Fleet section of the Capital Budget, identify the specific equipment proposed for replacement in the budget cycle, and year each piece of equipment was originally scheduled for replacement. Additionally, include a narrative disclosing the equipment replacement backlog. If the backlog is more than \$1million, identify the reason and develop an action plan.

Agree. Will implement by June 2011 as part of the FY 2012 – FY 2013 budget.

- 1.4 Maintain an accurate and complete equipment replacement history and provide periodic reports to users that include:
1. New equipment, and identify the piece of equipment that it replaced.
 2. Replaced equipment, and identify the new piece of equipment that replaced it.

Agree. Will implement on a going forward basis by December 2010, or soon after, pending when this project can be included in PW-IT work plan projects.

Finding 2 How Sustainable Is the Fund?

Replacement fees are used for the following unplanned purposes:

1. Cover a general fund shortfall in fiscal year 2006.
2. Pay for salaries and benefits for the administration of the Equipment Replacement fund.
3. Pay for rental car use by City departments (City CarShare⁶ use).

Result: The City's equipment replacement reserve may not be sufficient to replace all equipment timely.

\$1.7 Million Transfer From Equipment Replacement Reserve to Pay for Fire Department's Leased Trucks and Engines

As of December 31, 2009, if all the equipment past due for replacement⁷ were replaced at once, the fund would have approximately \$1.9 million dollars. However, the City Manager has committed approximately \$1.7 million from the equipment replacement reserve funds to pay for a portion

Equipment replacement reserves pay for general fund shortfalls, salaries and benefits, and the use of rental cars.

⁶ Bay Area nonprofit that provides access to shared cars.

⁷ PW estimates the cost to be \$3.6 million.

of the Fire Department’s lease payments for two fire trucks and four fire engines. These funds represent equipment replacement fees earlier collected for the purchase of this equipment. The lease payment contributions from the reserve fund are scheduled to be made biannually through fiscal year 2018.

Equipment replacement reserve need: \$4.22 - \$5.62 million, On hand: \$167,000.

After the backlog is addressed and money is set aside for the Fire Department lease payment, there will only be \$167,000 available in the equipment replacement reserve.

The City had 429 pieces of equipment in the equipment replacement program. PW estimated a \$28.1 million replacement cost. The Matrix Consulting Group recommends having 15% - 20% of the current replacement value of equipment in a reserve, and assumes no backlog. For Berkeley, this would translate to a \$4.22 million (15% * 28.1 million) to \$5.62 million (20% * \$28.1 million) reserve versus the \$167,000 available.

\$2 Million Transfer From Equipment Replacement Reserves to General Fund

In fiscal year 2006, \$2 million dollars was transferred from equipment replacement to the general fund and never repaid.

\$1.3 Million Equipment Replacement Fees Used to Pay Salaries and Benefits

Equipment replacement fees are used to pay for salaries and benefits even though no part of the fee is collected for this purpose. During fiscal years 2008 through 2010, monthly equipment replacement fees were used (or budgeted) to pay for more than \$1.3 million in salaries and benefits.

Fees for labor cost should be built into pricing.

Fiscal Year	Salaries and Benefits
2010	\$515,137*
2009	\$408,275
2008	\$381,928
	\$1,305,340

* = Budgeted amount

It appears appropriate that PW staff time associated with equipment replacement be charged to the equipment replacement fund. However, it is a concern that this cost is not transparent and that a revenue source, such as an administrative fee, is not charged to cover this expense.

During fiscal year 2009 approximately 12% of the \$3.3 million collected to replace equipment was used to pay for salaries and benefits. In October 2004 the consult Maximus Inc⁸ recommended that a monthly administrative fee be charged to pay for these costs.

\$296,828 Equipment Replacement Fees Are Used to Pay for Car Rental

Equipment replacement fees are used to pay for the cost of City employees renting vehicles from City CarShare. No portion of the replacement fee is collected for this purpose. During fiscal years 2008 through 2010, \$296,828 was used or budgeted for this expense.

Fiscal Year	City CareShare (Car Rental)
2010	\$109,897*
2009	75,458
2008	111,473
	\$296,828

* = Budgeted amount

City Manager’s Response to Finding

Agree.

Recommendation for Public Works and City Manager’s Response

2.1 Develop a plan to significantly reduce the equipment replacement backlog by 50% to \$1.8 million within the next five years. Develop a plan to increase the equipment replacement reserve fund to at least 10% of the replacement value of the fleet within the next seven years. These written plans should be formally approved by the PW Director.

Agree. Will implement by June 2011.

2.2 Consider establishing new fees, such as an administrative fee, to pay for salaries and benefits currently paid for with equipment replacement funds. Also consider establishing a use fee to pay for car rental.

⁸ Maximus is a consulting company that performed a fleet assessment for the City of Berkeley in 2004.

Agree. Will develop an additional fee to charge user departments to cover administrative costs of replacement program by June 2011 as part of FY 2012 – FY 2013 budget. PW is in the process of establishing a use fee to pay for car rental.

Recommendation for City Manager and City Manager’s Response

2.3 When equipment replacement reserves are used to balance the budget in another fund, such as the general fund, consider treating this transaction as a loan with a formalized repayment plan, where appropriate.

Agree that procedures should be in place regarding transfers between funds that the City Council adopts as loans. The Budget Office will develop procedures for citywide fund balance loans by September 2011.

Finding 3 Is the Fleet Too Large or Too Old?

An October 2004 fleet report prepared by Maximus Inc. states, “Where there is an over age fleet, there also usually is a bloated fleet – customers hang on to vehicles that should otherwise be retired so that they will have spares when the other vehicles go out of service.” This practice “...only serves to exasperate the maintenance requirements of the fleet.”

Bloated Fleet =
Higher
Maintenance

Written Approval to Keep Old Equipment is Generally Not Obtained

The Equipment Superintendent said that current procedures require City Manager and PW Director approval to keep replaced equipment. He further stated that documented approval is generally not obtained.

Approval to
keep replaced
equipment not
obtained.

In a May 2003 audit issued by the Auditor’s Office titled “Fleet Vehicle Management Audit”, recommendation 2.2 states, “Departments requesting to keep an old vehicle that has been replaced with a new or newer vehicle should submit a written request to the Equipment Maintenance Division Equipment Superintendent and the City Manager for their approval. The request should include a clear explanation of why the vehicle should be kept.” The City Manager reported to City Council on May 13, 2003, that this recommendation had been implemented. Currently it is not implemented. As of December 31, 2009, the City had about 49 replaced vehicles and pieces of equipment as backups.

The City may be able to reduce some equipment maintenance and repair costs if staff reduce the number of pieces of backup equipment and replace equipment significantly past scheduled replacement.

Improve the criteria for equipment retention and replacement.

Process Used to Decide Whether or Not to Replace Equipment is Not Documented

There are no written policies and procedures for assessing equipment replacement. The Equipment Superintendent stated equipment replacement is largely based on age and planned usage but that he also takes actual mileage, maintenance costs, and condition into consideration. The process used to decide whether or not to replace a piece of equipment is not documented.

The Matrix Consulting Group recommends a formal policy that uses a point system to identify the vehicles and equipment that should be replaced. It further recommends the point system consider:

1. Age of the equipment.
2. Life-to-date miles or hours for the equipment.
3. Reliability of the equipment.
4. Life-to-date maintenance and repair costs for the equipment versus the equipment's class (excluding accident damage), and
5. Condition of the equipment.

An empirical approach to determining equipment replacement cycles known as life cycle cost analysis is not used⁹. Current methods for deciding when to replace equipment are not best practices and may result in equipment being replaced at a less than opportune time.

City Manager's Response to Finding.

Agree.

⁹ Life cycle cost analysis involves modeling the stream of costs associated with acquiring, maintaining, and disposing of vehicles over various replacement cycles, and then determining the cycle with the lowest cost.

Recommendations for Public Works and City Manager’s Response.

3.1 Comply with established policy and do not keep replaced equipment without written approval from the appropriate management staff. Apply this policy to equipment desired to be kept as backup equipment. The policy, procedure, and forms to be used should be documented in writing. Obtain appropriate management staff approval for all backup equipment. Dispose of all unauthorized equipment.

Agree. Will implement by July 2011.

3.2 Close to the date a piece of equipment reaches its estimated useful life, a City mechanic should conduct a documented examination to determine if the useful life should be extended, and if it can, by how long. Consider implementing a system that assigns points or a pass/fail grade for the following (checklist type form):

- Age of the equipment,
- Life-to-date miles or hours for the equipment
- Reliability of the equipment
- Life-to-date maintenance and repair costs for the equipment versus the equipment’s class (excluding accident damage), and
- Condition of the equipment.

Agree. Will implement by July 2011.

3.3 Consider using life-cycle cost analysis by equipment class for determining tentative equipment replacement cycles for some of the more expensive classes of vehicles, such as refuse trucks and fire engines.

Agree. Will implement by July 2011, as appropriate, and with re-evaluation of life cycle costs, to determine if deferred purchase is best.

Finding 4 Will What We Buy Meet Our Needs?

Equipment Purchases May Not Meet City Needs

In 2008 five refuse trucks were purchased for approximately \$1.2 million and shortly thereafter sold at auction by First Capital Auction Inc. for a loss of approximately \$697,000. The Director of PW authorized the sale of the trucks because they were not operationally friendly and did not meet the City’s needs.

Buying the wrong equipment is costly.

Department representatives stated they were typically involved in the selection of replacement equipment. However, the safeguards in place do not appear to be effective enough to prevent purchasing equipment that does not meet the City's needs. No process or procedures are in place for sign-off by equipment stakeholders.¹⁰

Also, the same auction company, First Capital Auction Inc., continues to sell the City's equipment under the following conditions:

- a. No executed contract¹¹.
- b. No minimum bid policy.

The Equipment Superintendent stated that the City is looking into other ways the City can sell vehicles and equipment that would bring in more money.

The Inspection of New Equipment is Not Documented

Inspections to determine if new equipment meets contract specifications, and that major components are working, are not documented. There are no written policies and procedures for inspections.

Inspections of new equipment are not documented. This increases risk that problems will not be timely identified and corrected.

The Equipment Superintendent stated he or the Sr. Equipment Supervisor inspect new equipment to ensure they meet contract specifications and are operating properly. He further stated that staff who will use the equipment also performs an inspection. If problems are found, the vendors are contacted, often by email. Other than these emails, inspections and their outcome are not documented. When inspection activity and inspection results are not sufficiently documented, there is increased risk that problems with new equipment will not be timely identified and corrected.

City Manager's Response to Finding

Agree.

¹⁰ The 2004 Maximus Inc. consulting report states that as a best practice, "Customers must sign-off on specifications before a vehicle is ordered (formal sign-off on a cover sheet)".

¹¹ Section II, paragraph 4 of the City of Berkeley Purchasing Manual requires a contract when services exceed \$5,000. During fiscal year 2009, the City of Berkeley paid First Capital Auction Inc. about \$25,000 in commissions.

Recommendation for Public Works and Finance and City Manager's Response

- 4.1 Requisitions for the purchase of major equipment and all vehicles should not be approved until stakeholders approve the specifications in writing. This requirement should be incorporated into the City of Berkeley Purchasing Manual and/or other written procedures as appropriate.

Agree. Will implement by December 2010. Purchasing Manual was updated August 24, 2010.

Recommendation for Public Works and City Manager's Response

- 4.2 Enter into a formal services contract with a vendor selected to sell the City's old equipment and vehicles in compliance with the City's Purchasing Manual.

Agree. Public Works will work with General Services in submitting an RFP for vehicle and equipment disposal services and have a contract in place by July 2011.

- 4.3 Document and retain the inspection records of all new major equipment and vehicles. These inspections should determine whether or not contract specifications were met and whether or not major components are working properly. Consider using the contract specification section of the contracts as a checklist. Incorporate this practice into the written policies and procedures.

Agree. Will implement by December 2010.

Finding 5 Are Departments Charged Correctly?

In some cases monthly equipment replacement fees continue to be collected for years after they should have stopped.

Equipment replacement charges might not be correct or sufficient.

1. The monthly collection of equipment replacement fees is not always discontinued when scheduled.
2. When a piece of equipment is not replaced after its scheduled replacement date, staff do not evaluate whether replacement fees collected are still sufficient.
3. Fee computation errors can go undetected because department monitors do not know how fees are calculated.

Replacement Fees Do Not Stop Automatically

Monthly equipment replacement fees collected by the FM Module are not automatically discontinued when the replacement amount (or date) is reached. PW Equipment Maintenance does not provide departments with a report that allows them to monitor when the replacement fees should stop.

The PW Solid Waste Division continued to pay monthly equipment replacement fees for 5 refuse trucks for 2 – 8 years after they were scheduled to stop. The difference between what PW Equipment Maintenance intended to collect to replace these 5 trucks and what was collected totaled \$586,000¹².

Two large divisions in Public Works, Solid Waste and Streets and Sanitation, are not monitoring replacement fees. The Police Department and Parks and Recreation Department have created their own worksheets which they use for monitoring.

PW has not provided departments with written instructions regarding what and how to monitor.

Untimely equipment replacement can mean insufficient fees collected to pay for them.

Untimely Equipment Replacement – Insufficient Fees Collected

When the monthly fees collected to replace a piece of equipment are not sufficient, the shortfall is paid for with fees collected for other equipment. When equipment is not replaced for two or more years after its scheduled replacement, the difference between the replacement fees collected and the cost to replace the equipment can be significant.

Four 25-yard Refuse Trucks Scheduled to be Replaced in 2003

Vehicles	Cost to Replace in 2003	Fees Collected	Current Est. Replacement Cost	Shortfall
Refuse Trucks (4)	\$772,000	\$837,888	\$1,053,600- \$1,141,400	\$215,712 – \$303,512

¹² Because these refuse trucks were not timely replaced, they will likely cost more to replace than originally estimated. For this reason, the full \$586,000 should not be considered an overpayment. PW management now believes a portion of the original monthly replacement fee for each vehicle should continue to be collected each month once the full estimated replacement cost has been collected and that this should continue until the vehicle is actually replaced.

Erroneous Monthly Fees Can Go Undetected

Representatives from the two departments we spoke with stated they did not know how monthly equipment replacement fees were calculated. As a result, there is an increased risk that monthly replacement fee errors will not be timely detected.

City Manager's Response to Finding

Agree.

**Recommendations for Public Works and Information Technology and
City Manager's Response**

- 5.1 If cost effective to do so, the City Information Technology Department or SunGard HTE should program the Fleet Management Module to automatically stop monthly replacement fees at a pre-determined time. Alternatively, the City should develop a report that informs the departments when equipment replacement fees should be discontinued.

Agree. Will create a query to run a report with estimated life by December 2010, or soon after, pending when this project can be included in PW-IT work plan projects.

Recommendations for Public Works and City Manager's Response

- 5.2 Provide department monitors with written procedures that explain how to check monthly replacement fees.

Agree. Will implement by December 2010.

- 5.3 To cover the ever increasing cost to replace a vehicle, once planned monthly replacement fees have been collected, a portion of the monthly replacement fee should continue to be collected until the replacement vehicle is purchased.

Agree. Will develop a fee based on appropriate percentage needed to cover increased costs for purchase by June 2011 as part of FY 2012 – FY 2013 budget.

IV. FISCAL IMPACT

The City has established an equipment replacement fund, which is considered an industry best practice. However, the equipment replacement reserve had been used to pay for a general fund shortfall, salaries and benefits, and rental cars. The fees collected for the equipment replacement fund were not intended to pay for these additional costs. This resulted in the equipment replacement reserve having only \$167,000 truly available as of December 31, 2009. The recommended equipment replacement reserve is \$4.22 - \$5.62 million; this doesn't include the equipment backlog of \$3.6 million as of December 31, 2009.

The City may be able to reduce some equipment maintenance and repair costs if staff reduce the number of pieces of backup equipment and replace equipment significantly past scheduled replacement. Total equipment maintenance cost for fiscal year 2009 was \$5.2 million. If reducing the size of the fleet by disposing of old equipment and backup equipment could achieve even a 2% reduction in repair costs, the City would save over \$520,000 over the course of five years.

Appendix A: Scope and Methodology

Audit scope was City of Berkeley vehicle and equipment replacement activity involving equipment replacement fund 860. This audit did not look at the adequacy of the SunGard Fleet Management Module software. Audit fieldwork started on October 15, 2009, and ended on February 24, 2010.

The equipment replacement backlog identified in this audit report (see finding 1) was based on unaudited information provided by PW management. Government auditing standard (GAGAS) 7.24 requires that when system controls are determined to be significant to the audit objectives that the auditors evaluate the design and operating effectiveness of such controls. The auditor relied on Public Works to run queries in FM to identify the pieces of equipment that were past due for replacement as of December 31, 2009. He further relied on Public Works to identify those pieces of equipment and vehicles that were incorrectly being identified in these queries as replacement backlog, or were in the process of being replaced. In the judgment of the auditors of the Auditor's Office, audit work performed supports the findings and conclusions in this report.

The information used to perform this audit was obtained primarily through:

- A walkthrough to determine how equipment replacement is funded and accounted for, how equipment is purchased and disposed of, and how equipment activity is tracked in the HTE Fleet Management module.
- Discussions with staff in the Public Works, Police, Parks and Recreation, and Finance Departments regarding monitoring and accounting procedures and practices.
- A review of accounting and equipment records and data.
- Comparing City policies and procedures with industry best practices.

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.

Appendix B: Vehicles and Major Equipment Past Due for Replacement As of December 31, 2009

	Vehicle / Equipment Model Year	Vehicle / Equipment Description	Est. Life in Years	Planned Replacement	Department
1	1992	18 YD. Refuse Rear Loader	8.0	2001	Public Works
2	1994	25 YD. Refuse Rear Loader	8.0	2003	Public Works
3	1994	25 YD. Refuse Rear Loader	8.0	2003	Public Works
4	1994	25 YD. Refuse Rear Loader	8.0	2003	Public Works
5	1994	25 YD. Refuse Rear Loader	8.0	2003	Public Works
6	1988	1/2 Ton Pickup	15.0	2004	Public Works
7	1994	25 YD. Refuse Rear Loader	8.0	2004	Public Works
8	1994	25 YD. Refuse Rear Loader	8.0	2004	Public Works
9	1992	18 YD. Refuse Rear Loader	8.0	2004	Public Works
10	1996	40 YD. Front Loader	7.0	2004	Public Works
11	1985	Equipment Trailer	20.0	2005	Public Works
12	1990	T/S Shop Truck	15.0	2005	Public Works
13	1986	Equipment Trailer	20.0	2006	Public Works
14	1992	Forklift (10000 LB Cap)	15.0	2006	Public Works
15	1987	4 YD. Dump Truck	20.0	2007	Public Works
16	1987	4 YD. Dump Truck	20.0	2007	Public Works
17	1996	Mini Pickup W/Lift	10.0	2007	Public Works

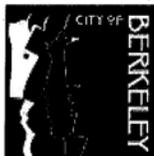
Equipment Replacement Fund – Sustainability and Transparency

	Vehicle / Equipment Model Year	Vehicle / Equipment Description	Est. Life in Years	Planned Replacement	Department
18	1996	Container Maint.Truck	10.0	2007	Public Works
19	1996	Container Maint.Truck	10.0	2007	Public Works
20	1999	40 YD. Front Loader	7.0	2007	Public Works
21	1995	4X4 Jeep	12.0	2007	Public Works
22	1995	4X4 Jeep	12.0	2007	Public Works
23	1987	Utility Trailer 6'X 12'	20.0	2007	Public Works
24	1993	93 Ford Ranger Pickup	15.0	2009	Public Works
25	1998	1/2 Ton Ext Cab Pickup	10.0	2009	Public Works
26	1998	1/2 Ton Ext Cab Pickup	10.0	2009	Public Works
27	1998	3/4 Ton Pickup	10.0	2009	Public Works
28	1995	4X4 Jeep	15.0	2009	Public Works
29	1995	4X4 Jeep	15.0	2009	Public Works
30	1995	4X4 Jeep	15.0	2009	Public Works
31	1998	Compact Sedan	10.0	2009	Public Works
32	1999	3/4 Ton Pickup Truck	10.0	2009	Public Works
33	1999	Ext Cab Mini Pickup (Pool)	10.0	2009	Public Works
34	1999	30 YD. Front Loader	10.0	2009	Public Works
35	2002	Electric Vehicle	6.0	2009	Public Works
36	1998	Compact Sedan	10.0	2008	Planning
37	1998	Compact Sedan	10.0	2008	Planning
38	1997	5 Passenger Wagon	10.0	2008	Planning
39	1997	5 Passenger Wagon	10.0	2008	Planning
40	1989	14' Flatbed Dump Truck	12.0	2000	Parks and Recreation
41	1996	3/4 Ton Utility	10.0	2006	Parks and Recreation
42	1996	3/4 Ton Utility	10.0	2006	Parks and Recreation

Equipment Replacement Fund – Sustainability and Transparency

	Vehicle / Equipment Model Year	Vehicle / Equipment Description	Est. Life in Years	Planned Replacement	Department
43	1987	Utility Trailer 4'X 6'	20.0	2007	Parks and Recreation
44	1997	3/4 Ton Pickup	10.0	2008	Parks and Recreation
45	1998	Stump Grinder	10.0	2008	Parks and Recreation
46	1996	3/4 Ton Utility Truck	12.0	2009	Parks and Recreation
47	1998	1 Ton Crew Cab Pickup	10.0	2009	Parks and Recreation
48	1998	1 Ton Crew Cab Pickup	10.0	2009	Parks and Recreation
49	1998	1 Ton Crew Cab Pickup	10.0	2009	Parks and Recreation
50	1998	3/4 Ton Pickup	10.0	2009	Parks and Recreation
51	1999	3/4 Ton Pickup Truck	10.0	2009	Parks and Recreation
52	2002	Articulating Mower Deck	7.0	2009	Parks and Recreation
53	1999	Escort Sedan	10.0	2009	Health & Human Services
54	1999	Taurus Wagon	10.0	2009	Health & Human Services

Appendix C: Public Works Accomplishments Letter



Public Works Department

Date: August 31, 2010
To: Phil Kamlarz, City Manager
From: Claudette Ford, Public Works Director *Claudette Ford*
Subject: Equipment Replacement Fund – Accomplishments

The City Auditor conducted an Audit of the Equipment Replacement Fund from October 2009 through February 2010, focusing on the fund, itself, and how equipment is purchased, retained, disposed of, and tracked. Their findings will be reported to the City Council next month, and Public Works staff is already in the process of implementing recommendations. In addition, we want to bring the following accomplishments and continuing best practices to your attention:

- Public Works funds a dedicated Buyer position for equipment replacement, which has been an enormous help in improving the procurement process of vehicles and equipment, along with significantly reducing the replacement and purchasing backlog.
- Equipment Maintenance staff conduct quarterly Fleet user group meetings with representatives of all end user departments.
- Staff developed a vehicle specification signoff sheet for pre-purchase documentation, review and approval by the specific equipment / vehicle operators, front line supervisors and division manager of end user department, an equipment mechanic and the equipment superintendent.
- Public Works purchases hybrid vehicles whenever possible, reducing the City's reliance on petroleum purchases of gasoline and diesel fuels.
- Public Works encourages use of, and manages the City CarShare program, and as recommended by the recent Audit, will be revising the billing and accounting procedures to make this program both easy to use and cost effective for the Fund.

Our staff is committed to continuous improvements in the procurement, tracking, maintenance, and fiscal management of the City's array of fleet and critical equipment. Input from both the Auditor's Office and our customers is appreciated, and helps improve our service delivery and accountability.

Copy:
Christine Daniel, Deputy City Manager
Andrew Clough, Public Works Deputy Director
Bill Ivie, Equipment Superintendent
ARobin Orden, Senior Management Analyst
Public Works Division Managers

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