Audit of Operations and Maintenance's Equipment Leasing

Project # 10-14

Prepared by
Office of Inspector General

John W. Williams, Esq., Inspector General
J. Timothy Beirnes, CPA, Director of Auditing
Jankie Bhagudas, CPA, Lead Consulting Auditor

SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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Audit and Finance Committee Members:
Mr. Charles J. Dauray, Chair
Eric Buermann, Esq., Member
Mr. Joe Collins, Member
Glenn J. Waldman, Esq., Member

Re: Audit of Operations & Maintenance's Equipment Leasing
Project No. 10-14

This audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. The objectives focused on determining whether Operations and Maintenance's equipment lease agreements are cost efficient and whether the original criteria used to justify implementation is still appropriate under current economic conditions. This report was prepared by Tim Beirnes and Jankie Bhagudas.

Sincerely,

John W. Williams, Esq.
Inspector General

TABLE OF CONTENTS

BACKGROUND

In accordance with the Office of Inspector General's Fiscal Year 2010 Audit Plan, we conducted an Audit of Operations and Maintenance's Equipment Leasing to determine whether equipment lease agreements are cost efficient and whether the original criteria used to justify implementation is still appropriate under current economic conditions.

The District's Operations and Maintenance Resource Area's goal is to minimize damage from flooding, provide adequate regional water supply, and protect and restore the environment by optimally operating and maintaining the primary flood control and water supply system. Currently, Operations and Maintenance has only one lease agreement, which is for 20 vehicles in the District's motor pool. The motor pool is administered by Operations and Maintenance's Business Services staff in the Fleet Unit. The Fleet Unit's responsibilities include the development of technical specifications for vehicle/equipment acquisition; continuous assessment of vehicle utilization; recommendations regarding the use, maintenance, and redeployment of fleet equipment within the District; Sun Pass management; and operating the District's motor pool. The motor pool consists of 35 District-owned and leased vehicles and is located at District Headquarters. It provides transportation to District Headquarter employees and Governing Board members when they have to travel to conduct District related business.

The District's optimal preference would be to purchase vehicles outright for its motor pool rather than leasing. However, due to budget constraints the District has been leasing vehicles to supplement its motor pool. The prior leasing agreement was for three year with Mears Leasing Company and it covered April 2006 through March 2009. The current leasing agreement is with the Bancorp Bank DBA Jefferson Leasing for 20 vehicles for $250,614 over three years. It should be noted the District piggybacked on a General Service Administration contract (Contract GS-30F-0019F) with the Bancorp Bank DBA Jefferson Leasing. The agreement covers April 1, 2009 to March 31, 2012 and consists of the following:

Number of Vehicles / Type	Make/Model	Monthly Rental Rate	Annual Cost
12 Midsize Sedans	Ford Fusion	$290.36	$41,811.84
4 Compact Sport Utility Vehicles	Chrysler Jeep Cherokee	$436.36	$20,945.28
4 Vans (7 passengers)	Ford E-150	$432.93	$20,780.64
Total			**$83,537.76**

Further, the agreement includes a mileage allowance of 20,000 miles per year per vehicle or 60,000 miles over the three year lease term with a 12 cent per mile charge in excess of the allowed miles.

It should be noted from January 2003 to March 2006 the District contracted with Enterprise Leasing Company (a commercial car rental agency) to provide daily rentals to District staff because District-owned vehicles were not always available when needed by employees. In Fiscal Year 2004, our Office performed an *Audit of Fleet Operations* (Audit #04-08). As part of the audit, we examined a cost/benefit analysis that the Fleet Unit conducted to determine whether the District's internal motor pool or a commercial motor pool would be more efficient and concluded that the analysis contained several oversights that resulted in overstating the cost savings. Subsequently, it was realized that owning the vehicles under a lease agreement would be most cost effective for the District.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objectives focused on assessing Operations and Maintenance's vehicle lease agreement to determine whether leasing is more cost efficient and whether the original criteria used to justify implementation of the program is still appropriate under current market conditions.

To accomplish our objectives we obtained an understanding of the equipment leasing process and procedures by interviewing key personnel in Operations and Maintenance's Business Services section and reviewing relevant documents, e.g., policies, procedures, and the vehicle lease agreement. In addition, we compared the cost of the leased vehicles to the cost of financing the purchase of the same vehicles to determine which option is more cost efficient. We also obtained and analyzed the lease agreement and various reports prepared by the Fleet Unit. Further, we reviewed Trip Logs and Vehicle Use Request Forms maintained by the Fleet Unit to determine whether leased vehicles were adequately utilized.

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

AUDIT RESULTS

Executive Summary

Overall, we found that Operations and Maintenance's decision to supplement the District's motor pool with leased vehicles is cost efficient under current economic conditions. Specifically, since the Fleet Unit's budget precludes the purchase of any new vehicles for the motor pool, we compared the cost of leasing the 20 vehicles in the motor pool to the cost of financing the purchase of the same vehicles over a six-year period to determine which option would be more advantageous to the District. Our analysis disclosed that the financing alternative would result in cost savings of only $5,641 over the six-year period and the advantages associated with leasing considerably outweigh the financing alternative.

In addition, our review of utilization data maintained by the Fleet Unit disclosed that utilization levels of sedans and SUVs in the District's motor pool appear adequate. However, utilization of the passenger vans in the District's motor pool are greatly underutilized. Specifically, we analyzed utilization for a 20-week period during September 2009 to January 2010 and found that during 15 of the 20 weeks, three or more of the six vans in the motor pool were not being utilized, i.e., three or more vans were not utilized 75% of the time.

Further, we concluded that utilization data maintained by the Fleet Unit was mostly accurate; however, we noted a few exceptions. During September 2009 to January 2010 certain vehicles were not driven at all; however, the Fleet Unit's spreadsheets indicated that the vehicles were used. There were also instances where vehicles were used; however, the number of days used were not indicated. In addition, our review of daily trip logs revealed that in most instances the trip logs are completed as required. However, our review of trip logs for September 2009 to November 2009 disclosed a few instances where the logs were not completed as required.

Leasing Motor Pool Vehicles is Advantageous under Current Economic Conditions

Our review disclosed that leasing is a more cost efficient option for the District than financing the purchase of motor pool vehicles under current economic conditions. Current economic conditions and budget constraints have resulted in a reduction in the Fleet Unit's budget in Fiscal Year 2010 and further reductions are anticipated in Fiscal Year 2011. Reductions in the Fleet Unit's budget from Fiscal Year 2009 to Fiscal Year 2010 are shown in the table below:

Fleet Unit's Budget	Fiscal Year 2009	Fiscal Year 2010
Capital Outlay - Vehicles	$2,025,898	$353,643
Fleet Unit's Total Budget	$3,499,040	$1,765,826

The Fleet Unit's Fiscal Year 2010 capital budget does not include the purchase of any vehicles for the motor pool.

Since the Fleet Unit's budget precludes the purchase of any motor pool vehicles, we compared the cost of leasing the 20 vehicles in the motor pool to the cost of financing the purchase of the same vehicles over a six-year period to determine which option would be more advantageous to the District. Our analysis disclosed that the financing alternative would result in cost savings of only $5,641 over the six-year period and the advantages associated with leasing considerably outweigh the financing alternative.

Our analysis of the costs associated with leasing the motor pool vehicles and financing the purchase of the vehicles are shown in the following table.

Number / Vehicle Type	LEASE Monthly Lease Payments	SIX YEAR FINANCING (*See Note 1*) Total Purchase Cost	Monthly Payments @ 5% Interest for Six Years
12 Sedan	$3,484	$200,400	$3,227
4 SUVs	1,745	85,704	1,380
4 Mini-Vans	1,732	89,352	1,439
Total	**$6,961**	**$375,456**	**$6,046**
Lease Vs. Purchase Options for Six Years			
Total Lease Payments After Six Years	$501,227		
Net Present Value of Lease Payment for Six Years (Based on a 5% Discount Rate)	$432,257		
Net Present Value of Monthly Loan Payments After Six Years			$426,616
Difference in Financing vs. Leasing Cost			**$5,641**

Note 1 *– Financing analysis is based on the following assumptions: financing rate of 5%, $800 monthly repair costs after the end of the third year, and a 10% residual value at the end of six years. The Fleet Unit agreed with these assumptions.*

According to the Fleet Unit, leasing is advantageous for the following reasons:

- reduced capital outlay each year
- new vehicles are provided at the beginning of each three year lease agreement (District-owned vehicles are kept for a minimum of eight years)
- reduced maintenance costs since vehicles are covered by the factory warranty during the three year lease period

Leased Passenger Vans Greatly Underutilized

Our audit tests and review of utilization data maintained by the Fleet Unit disclosed that utilization levels of sedans and SUVs in the District's motor pool appear adequate. However, utilization of the passenger vans (four leased and two District-owned) in the District's motor pool are greatly underutilized. Specifically, we analyzed utilization for a 20-week period during September 2009 to January 2010 and found that during 15 of the 20 weeks, three or more of the six vans were not being utilized, i.e., three or more vans were not utilized 75% of the time. Thus, it appears that the District is leasing vehicles that may not be needed. Detailed utilization data are shown in the following table.

Utilization of the Six Passenger Vans in the Motor Pool	Number of Weeks	%
None of the vans were used	1	5%
Five of the six vans were not used	6	30%
Four of the six vans were not used	3	15%
Three of the six vans were not used	5	25%
Two the six vans were not used	3	15%
One of the six vans were not used	1	5%
All vans were used	1	5%
TOTAL	**20**	**100%**

We noted that the vans were driven for only 10,639 miles during the 20-week period. Further, based on our review of mileage data maintained by the Fleet Unit, the four leased passenger vans were driven only 16,450 miles from May 2009 to January 2010. Since the annual mileage allowance is 20,000 miles per vehicle (1,666 miles per month), utilization was only 27% (miles driven / allowable miles; allowable miles = 1,666 miles per month * 9 months * 4 vans). The Fleet Unit acknowledged that the vans are underutilized and explained that the under utilization is partly because the vans are too large, i.e., seven passenger vehicles and staff do not want to drive such large vehicles. During our audit, the Fleet Unit contacted the Jefferson Leasing and inquired whether two of the vans be swapped for smaller vans.

It should be noted that as of April 2010 the current lease agreement will not end for another two years. Based on our review of current utilization levels, only one of the four leased vans is needed for the motor pool and the District could end up paying as much as $31,171 ($432.93 (monthly cost per van) for 24 months for 3 vans) over the next two years for the underutilized vans if no action is taken.

Adequate Documentation to Substantiate Utilization; But Some Exceptions Noted

As part of our audit, we reviewed various utilization spreadsheets maintained by the Fleet Unit to determine whether the Fleet Unit was accurately tracking utilization of motor pool vehicles. The spreadsheets include the following information: vehicle number, model, starting and ending mileage for each month, number of miles driven and number of days used each week. Overall, we concluded that utilization data maintained by the Fleet Unit was accurate. However, we noted a few exceptions, for example, our review of the "Monthly Tracking Final Number" excel spreadsheet, which summarizes weekly mileage and the number of days driven, revealed some discrepancies. Specifically, each time a vehicle is used the Fleet Unit tracks mileage and the number of days the vehicle was used in order to monitor utilization levels. We noted several instances during September 2009 to January 2010 where certain vehicles were not driven at all; however, the "days used" column on the Fleet Unit's spreadsheets indicated the vehicles were used. There were also instances where vehicles were used; however, the number of days used were not indicated. These oversights can distort actual utilization levels.

Employees using motor pool vehicles are required to indicate the number of miles driven and trip destinations on a daily basis on trip log. Our review disclosed that in most instances the trip logs are completed as required. However, our review of SUV trip logs for September 2009 to November 2009 disclosed a few instances where this information was not completed as required, for example, we noted an instance where an employee used a vehicle from October 27, 2009 to November 16, 2009 for a total of 2,372 miles and did not indicated the daily usage information.

Recommendations

1. **Determine the optimal number of leased passenger vans needed and negotiate with Bancorp Bank DBA Jefferson Leasing the possibility of returning those vans that are not needed or swapping them for vehicles that would more efficiently utilized.**

Management Response: Management agrees with the audit finding and has taken steps to implement the recommendation. District staff have contacted the leasing company on several occasions with a proposal to swap two passenger vans for two minivans; however, the leasing company has not responded. The Procurement Department is now assisting to resolve this issue and have informed Fleet Management that the District is contractually bound unless the leasing company agrees to swap the vehicles.

Responsible Department: Operations and Maintenance's Fleet Management Section

Estimated Completion: On going

2. **Ensure that data used to analyze utilization levels are accurate and daily trip logs are completed as required.**

   Management Response: Management agrees with the audit finding and recommendation. Fleet Management is now requiring that the motor pool attendant double check motor pool trip logs when vehicles are returned. Operators that fail to complete trip logs after trips will be notified in writing. In addition, District staff will be reviewing utilization spreadsheets daily and ensuring that trip logs are completed after each motor pool trip.

   Responsible Department*:* Operations and Maintenance's Fleet Management Section

   Estimated Completion: July 2010