



Office of Internal Audit

**Compliance Audit 2020-04
Vector Fleet Contract**

Completed: September 2020

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OFFICE OF INTERNAL AUDIT

OUR MISSION

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville's operations.

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EXECUTIVE SUMMARY

In accordance with the Fiscal Year 2020 Audit Plan, Internal Audit conducted an audit of the Vector Fleet Management and Maintenance Contract.

Background

Effective July 1, 2019 the City of Fayetteville entered into a ten year contract with Vector Fleet Management, LLC (Contractor) to provide fleet management and maintenance services. Based on contract terms, the Contractor was to provide fleet services to 1,350 vehicles and pieces of equipment.

Fleet services consisted of scheduled preventative maintenance, remedial repairs, warranty and recall work, overhaul, mobile service, towing, tire service and replacement, motor pool operations, fleet management, unit acquisition and disposal, parts inventory acquisition and maintenance. These services were to be provided to assure the stability of effective and economical operations of the City's fleet with the goals of:

- Reducing overall fleet maintenance costs;
- Improving vehicle and equipment availability;
- Increasing overall fleet operating efficiency with an effort to reduce capital expenditures for fleet assets; and
- Improving services offered to City departments using fleet vehicles and equipment by bringing best practices to the total fleet function.

Repairs could be subcontracted to a third-party vendor if the repair required could be more economically performed through outsourcing. This included routine repairs due to time constraints or scheduling.

The contract established a target and non-target cost model that provided the basis for invoicing. Differentiation between target and non-target units were defined within the contract through established Life Cycle Guidelines as well as the type and reason for the repair. Annual contract revisions to fleet inventory were required to memorialize unit changes to and from a target or non-target status.

The City's Target Cost Commitment for the first three years was \$7.3 million for target units with a potential annual shared savings. Under the Target Costs Commitment, the Contractor was required to perform repairs for all services with regards to target units for the actual incurred costs up to the maximum annual amount reflected in the Target Cost Commitment. There would be an annual adjustment for year four and each subsequent year of the contract.

Additionally, non-target units were charged non-target costs at an hourly rate¹ of \$44.85, a 5% part mark-up cost and a 1.5% subcontracted service markup cost. Labor costs during daytime operational hours were not charged as non-target costs for non-target units. Target units could be charged non-target costs in areas such as abuse or neglect resulting from deliberate actions or omissions. However, the City had some control over these charges. Some services, including but not limited to welding and modifications, were considered non-target costs for all City fleet.

The City's Fleet Management function hired a Fleet Manager in July 2019 to administer the contract. The contract was accounted for in an internal service fund and had an adopted budget of \$7.1 million for fiscal year 2020. The City disbursed \$7.0² million for fleet management and maintenance services in fiscal year 2020. Total net fleet costs were \$6.8 million, which represented an 11% increase from fiscal year 2019.

Objective

Internal Audit assessed whether the system of internal controls was adequate and appropriate for effective contract compliance with selected provisions of the executed contract as it related to payments.

¹ Daytime labor for non-target units would not be charged as non-target costs

² Amount does not include \$170k encumbered costs at June 30, 2020.

Scope

The scope was limited to contract payment provisions and included expenditures from July 1, 2019 through February 29, 2020 totaling \$3.2 million in fleet maintenance costs. A stratified statistical sample of 817 (12%) out of 6,889 repair orders were selected to determine if costs were in compliance with contract terms.

Conclusion

The Vector Fleet Contract was negotiated and executed with the intent for the Contractor to reduce overall fleet maintenance costs, improve fleet availability, increase fleet operating efficiency and improve services by providing best practices to the City fleet function.

Although there are risks associated with every contractual relationship, this audit highlighted vague contract terms that made it difficult to understand the contract requirements, ultimately impacting the success of the fleet function. Significant areas noted include:

- Actual incurred costs for target work invoiced and paid were not an accurate representation impacting the implementation of the annual savings to be considered;
- Contract was executed with an incomplete fleet inventory and contract terms were vague related to process to amend unit classification based on Life Cycle Guidelines and vehicle replacement plan resulting in increased non-target costs;
- Contract terms that were inconsistent and vague related to costs for directed work, standard daytime operational hours, subcontracted towing services, road calls and mobile service units allowing these services to be charged as non-target work for target and non-target units resulting in increased non-target costs; and
- Penalties associated with performance standards to reduce downtime were not implemented due to contract terms in calculating penalty and the City's lack of establishing a method to track.

Additionally, lack of effective contract monitoring and oversight of the fleet contract created an environment that would be hard to detect fraud, waste and abuse. Significant areas noted include:

- Limited City oversight due to a lack of and/or inadequate requests for data driven reports from the Contractor; and
- Insufficient processes in place to provide adequate contract oversight.

For a detailed explanation of each of the thirteen findings, please refer to the body of this Audit Report.

Management Action Plans

Since the completion of the audit in September 2020, management transitioned the City of Fayetteville's fleet management services from the on-site Contractor to a City operated fleet maintenance operation with the strategic plan goal of being a financially sound city providing exemplary city services. The contract with the on-site Contractor was mutually dissolved on June 30, 2021. Therefore, audit recommendations related to contract terms are no longer applicable.

However, in reference to Internal Audit's recommendations related to the oversight of fleet services, management intends to either implement or consider establishing a Fleet Committee, create and/or update current policies and procedures related to fleet management and maintenance, and prepare and schedule appropriate training.

*****END OF EXECUTIVE SUMMARY*****

TABLE OF CONTENTS

Compliance Audit 2020-04

Vector Fleet Contract

Background.....	4
Audit Objectives.....	5
Audit Scope.....	5
Audit Methodology.....	5
Findings, Recommendations and Management Responses.....	6
Finding 1.....	6
Finding 2.....	7
Finding 3.....	8
Finding 4.....	10
Finding 5.....	11
Finding 6.....	12
Finding 7.....	13
Finding 8.....	14
Finding 9.....	14
Finding 10.....	15
Finding 11.....	16
Finding 12.....	17
Finding 13.....	18
Conclusion.....	18
Subsequent Review.....	19
Distribution.....	19

BACKGROUND

In January 2018, the City issued a Fleet Management and Maintenance Service Request for Proposal (RFP) with the intent to contract with one or more commercial fleet service provider(s) that best met the City's need for high quality fleet management and maintenance services. The City's efforts to find a commercial service provider ended with the decision between two vendors. On November 26, 2018, City Council unanimously voted authorizing the City Manager to execute the contract with Vector Fleet Management, LLC (Contractor); the City entered into a ten year contract effective July 1, 2019.

The Contractor was responsible to provide fleet management and maintenance services for the City's 1,350 fleet units, to include vehicles and equipment owned, leased or operated by the City as identified in the City's Fleet Inventory identified in the contract. This fleet inventory provided a listing of vehicles and equipment and also classified the units as target or non-target. This classification was determined based on the unit's age, odometer reading, or hours reading as described in the Life Cycle Guidelines identified in the contract. The unit's designation as target or non-target provided the basis for invoicing. Invoicing was also determined by the type of service provided and the circumstances which required the unit to be serviced.

Target costs consisted of defined services provided by the Contractor with regards to target units for actual incurred costs including parts, supplies, outside services, personnel, overhead, administrative and management fees. Based on the Target Cost Commitment identified in the contract, the maximum yearly target costs totaled \$2,399,322 for the first year of the contract. Target costs were to be invoiced monthly for actual incurred costs.

Non-target costs would be invoiced to the City for actual incurred costs for non-target units. However, daytime labor for non-target units would not be charged as non-target costs. Additionally, the City could be charged non-target costs for non-target repairs, regardless of the unit's designation of target or non-target.

The following repairs were considered to be non-target for all City fleet: welding, accidents, capital improvement, operating and physical damage, excluded equipment (e.g. stationary generators, boats and temporary units), modifications, or other services not specifically defined in the agreement. Non-target costs were to be invoiced monthly to include all markups. Markups only applied to non-target costs which included a 5% parts markup and 1.5 % subcontracted services markup with the exception of accident repairs performed by subcontractors which the contract stated would be at cost with no markup.

Non-target and target repairs could also be subcontracted to a third-party vendor if the repair could be more economically performed. This included routine repairs due to time constraints or scheduling.

Although the City outsourced the maintenance of its fleet, a Fleet Manager was hired in July 2019 to administer the contract. The City's Fleet Manager was physically located at the fleet facility on Pepsi Lane,

Fayetteville, NC. In support of the City's Fleet Manager, departments generally had personnel assigned as fleet coordinators.

Expenditure Category	Fiscal Year 6/30/2018	Fiscal Year 6/30/2019	Fiscal Year 6/30/2020
Fleet Maintenance³	\$6,224,951	\$6,008,984	\$6,387,615
Salary & Benefits	0	20,248	119,705
On-Going Operating Costs	0	85,514	290,947
One-Time Costs	0	222,680	215,311
Totals	\$6,224,951	\$6,337,426	\$7,013,578
(less) One-Time Costs	0	(222,680)	(215,311)
Net Costs	\$6,224,951	\$6,114,746	\$6,798,267 ⁴

The City's Fleet Management is accounted for within an internal service fund and had an adopted budget of \$7.1 million for fiscal year 2020. The City disbursed \$7.0⁵ million for fleet management and maintenance services in fiscal

³ Fleet maintenance costs reflect Public Works Commission (PWC) for fiscal year 2018 and 2019 and Vector Fleet Management, LLC for 2020.

⁴ Unaudited at the time of the review – Audit scope was July 1, 2019 – February 29, 2020

⁵ Amount does not include \$170k encumbered costs at June 30, 2020.

year 2020. Total net fleet costs were \$6.8 million, which represented an 11% increase from fiscal year 2019. These costs included \$6.4 million for contracted fleet services, \$120k for salary and benefits, \$218k for the facility lease, \$41k for utility charges and \$29k for indirect costs for fiscal year 2020.

Expenditure Category	Fleet Maintenance Costs FY 6/30/2020	% of Total FM Costs
Target Costs:	-	-
Direct Labor and Parts	\$1,070,795	16.76%
Admin Overhead Mgt.	1,328,527	20.80%
Non-Target Costs	3,988,293	62.44%
Total Fleet Maintenance Costs	\$6,387,615	100.00%

Target costs for direct labor, parts and subcontracted repairs represented 16.76% of the total repair costs, and the Contractor's costs for overhead, administrative and management fee represent 20.80%. The non-target repair costs represented 62.44% of the total repair costs.

AUDIT OBJECTIVES

The objectives of this audit were to assess whether the system of internal controls were adequate and appropriate for effective contract compliance with selected provisions of the executed contract as it relates to payments.

AUDIT SCOPE

The audit did not include an examination of all functions and activities related to the executed Vector Fleet Management and Maintenance Contract. The scope was limited to the above objectives and included expenditures from July 1, 2019 through February 29, 2020.

The audit covered \$3.2 million in fleet maintenance costs to the City. There were 6,889 repair orders consisting of target, non-target and subcontracted fleet services provided to 1,150⁷ City units from July 2019 through February 2020. The majority of these costs, \$1.4 million (42%), were reflected as non-target costs invoiced on target units. A stratified statistical sample of 817 repair orders was selected to determine if the costs were in compliance with contract terms. This report and its observations are based on information taken from the sample of repair orders.

Cost Type	Target Units	Non-Target Units	Unidentified Units	Total July 2019 - February 2020	Cost Type %
Target	\$ 428,095	\$ 212,637	\$ 48,767	\$ 689,499	21.4%
Non-Target	1,357,455	816,818	355,129	2,529,402	78.6%
Totals	\$1,785,550	\$1,029,455	\$403,896	\$3,218,901 ⁶	100.0%
# of Units	447	476	227	1,150	

AUDIT METHODOLOGY

In order to accomplish the objectives of the audit, the Office of Internal Audit performed, but were not limited to, the following:

- Interviewed personnel from the City Manager's office, Airport, Development Services; Finance; Fire; Parks, Recreation and Maintenance; Police; Public Services departments, and Vector Fleet Management LLC;
- Reviewed the executed City of Fayetteville Fleet Management and Maintenance Contract Best and Final Offer effective July 1, 2019 and any other applicable guidelines related to fleet maintenance and management for compliance to include the North Carolina General Statutes;
- Reviewed repair orders maintained in the Contractor's software, invoices and other documentation to include viewing the unit history folders at the fleet maintenance facility;
- Reviewed fixed asset records in JD Edwards, the City's financial system;

⁶ Amount does not include the Contractors overhead, management and administrative costs.

⁷ Consists of 447 target, 476 non-target and 227 units that were not identified on Attachment A. Total does not include 240 repair orders, due to unit number not identified.

- Reviewed any additional documentation maintained related to the City’s fleet; and
- Considered risk of fraud, waste and abuse.

***FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

Finding 1

Limited City verification of work performed and repair costs invoiced resulted in overpayments to the Contractor.

Criteria: Best practices in contract administration require payments to contractors be conditioned on satisfactory performance and not made unless the City has assurance the contractor is making adequate progress in fulfilling contract requirements.

Condition: The City’s verification of the Contractor’s performance was nonexistent or insufficient to ensure paid services were received and acceptable. The City paid the Contractor \$4,128,949 in target and non-target costs for fleet maintenance services through February 29, 2020 without verifying the work was performed or in compliance with contract terms. Internal Audit estimates through statistical sampling and extrapolation, the City overpaid non-target costs totaling \$711,201 through February 29, 2020.

Cause: City verification was limited for a variety of reasons to include a poorly written contract with vague terms, inadequate requests for data driven reporting from the Contractor’s Management Information System, and a lack of performance standards used to assess completeness and quality of work. In addition, the City did not adjust operations, expectations, and communication when the fleet management and maintenance was outsourced to the private sector.

Effect: The City paid for fleet maintenance services that could not be validated as work completed or were not in compliance with contract terms.

Recommendation

1. Evaluate and collect the amount overpaid in non-target costs for fleet maintenance services.
2. A cost analysis should be completed by experienced personnel in fleet maintenance relating to the startup and operational costs to determine the cost-benefit, if any, of the City operating the fleet maintenance operations.
3. Establish a Fleet Maintenance Committee comprised of representatives from various City departments that utilize fleet services. A Committee chair, preferably a manager from the City Manager’s Office, should lead the group. The Committee’s purpose should be to address fleet-related issues, such as developing fleet policies and procedures, and resolving fleet service-related issues. The Fleet Manager’s role should be to staff the Committee and bring topics and analysis to the Committee for discussion.
4. Amend the contract to establish clear differentiation between the fleet manager and contract administrator.
5. Establish a comprehensive review process, based on current contract terms, for all fleet maintenance charges from July 2020 until the contract is amended to ensure contract compliance and accountability.

Management’s Response

Recommendations #1, #2, #4 and #5 are no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Recommendation #3: We concur. Management is in full agreement with the recommendation.

- a. Management believes establishing a “Fleet Committee” could be valuable and provide some desired clarity in accountability, areas of responsibility, establishment of agreed Standard Operating

Procedures (SOP's) and process improvements. The resulting recommendations will be either implemented or submitted to the City Manager's Office for consideration(s).

- b. Management will establish a weekly scheduled meeting with the Fleet Management and Maintenance Staff: Fleet Manager will facilitate this meeting. In addition management will schedule a monthly meeting with the full Fleet Committee, facilitated by a Staff member from the City Manager's Office.

Responsible Party: Chief Financial Officer or his/her Designee

Implementation Date: Recommendation #3:

- a. January 31, 2022 – Seek City Manager's Office approval to establish committee and select facilitator and members.
- b. February 28, 2022 – Conduct kick-off meeting

Finding 2

Vague contract terms made it difficult to understand the invoicing for the target cost commitment and shared savings requirements.

Criteria: The contract required the Contractor to perform all services involving target units for the actual incurred costs including parts, supplies, outside services, personnel, overhead, administrative, and management fee up to the maximum identified in the Target Cost Commitment, Attachment D.

The contract allowed the Contractor to receive 20% of any aggregate annual savings of the target cost commitment. The contract defined this as the difference between the twelve month billed costs, and fixed price included in the Target Cost Commitment.

The contract required the Contractor to provide payroll time sheets for all employees at the facility.

The Target Cost Commitment identified in Attachment D of the contract reflected the target costs for three years, specifically identifying totals for parts, labor, overhead, administrative, and management that sum to the total target cost commitment for each year.

Condition:

1. Invoiced target amounts were not an accurate representation of actual repairs, labor hours and incurred costs performed by the Contractor on City fleet:
 - a. The City's monthly target invoices were a fixed monthly amount of 1/12th of the total target costs commitment of \$2,399,322. As of February 2020, \$1,242,382 was paid by the City for target labor, parts and subcontracted costs with only \$689,499 in detailed invoices to authenticate the costs.
 - b. The difference between the invoiced (fixed amount) and actual target costs for labor, parts, and subcontracted services totaled \$552,883. No additional information was provided by the Contractor to authenticate the amount, whereas, the costs were for management overseeing the contract and considered privileged information. However, the contract requires payroll time sheets to be provided for all employees at the facility. Because these costs were not a part of the overhead, administrative and management cost components, they were deemed to be overpaid target costs.
 - c. Additionally, the City paid 1/12th of overhead, administrative and management costs totaling \$357,166 through February 2020.
2. The 1/12th fixed monthly target costs invoicing did not allow for the 20% aggregate annual savings of the target cost commitment to be considered.
3. The annual operating statement provided by the Contractor could not be reconciled to fleet reports provided due to the City only having access to non-privileged information pertaining to work under the contract.

Target Cost Components	Invoiced (Fixed Amount) Target Costs	Actual Target Costs	Amount Unable to Authenticate
Labor, Parts, Subcontracted	\$1,242,382	\$689,499	\$552,883

Cause: The Contractor invoiced the City based on feedback during the request for proposal process that stated the target cost was of a “firm fixed nature” that would be invoiced in 1/12th increments each month. However, the request for proposal documentation was not included in the fully executed contract. Furthermore, management did not ensure inconsistencies were addressed with the Contractor and memorialized with an amendment to the contract if necessary.

Effect: Without the ability to validate actual unit costs, to include the breakdown of maintenance and administrative cost per unit, the City is unable to evaluate fleet service effectiveness (quality and efficiency) creating the opportunity for the City to erroneously overpay for fleet maintenance services.

Recommendation

1. Evaluate and consider collecting from the Contractor the 80% savings based on the actual target costs of labor, parts and subcontracted services through June 30, 2020.
2. Consider the cost benefit, if any, of changing models from target/non-target to direct invoicing based on actual incurred costs for all fleet units.
3. Under the current contract terms, an amendment should address the following:
 - a. Establish the monthly invoicing for target unit costs as either actual costs or a fixed 1/12th rate, considering the aggregate annual savings;
 - b. Ensure the invoicing and tracking of target costs captures actual unit costs to include labor hours; and
 - c. Establish a reconciling mechanism from the annual operating statement provided by the Contractor to the components reflected in the Target Cost Commitment.

Management’s Response

Recommendations are no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 3

Fleet management processes were not established.

Criteria: Prior to the start of the contract, City management should have established processes consistent with contract terms and ensured all City personnel that utilize fleet services were aware of their role to ensure a successful implementation. In addition, the aspects of fleet management, provided by the previous fleet maintenance and management provider, should have been identified and addressed.

Processes should have included essential internal controls, to include but not limited to, clear lines of responsibility and written prior approvals. Prior approvals were needed for the City to analyze costly repairs on units, determine if the repair was essential, and review the City’s current vehicle replacement plan to ensure the unit is not pending replacement. Once established, these processes should have been memorialized in written policies and procedures.

Condition: Based on Internal Audit’s review, clear processes were not established in the following areas:

1. Complete prior approval guidelines were not documented in the contract, and the City did not establish additional written guidelines to ensure the Contractor understood the prior approval expectations to include approval thresholds and the format required to communicate the approvals. Internal Audit was unable to validate prior approvals were consistently obtained, or the necessity of repairs on units on the City’s vehicle replacement plan.
2. A process was not established to ensure annual safety and emissions inspections were performed timely and in accordance with NCGS. Therefore, the City was assessed civil penalties by the North Carolina Department of Transportation Division of Motor Vehicles for annual safety and emissions inspections not being completed by December 31, 2019.

3. The contract did not require the Contractor to adhere to motor labor guidelines. A process to review these guidelines against the actual hours invoiced by the Contractor would have provided oversight and accountability. Based on Internal Audit inquiry, the Mitchell One Labor Guide was available to the City but not used.

Cause: A sufficient analysis was not conducted prior to the turnover of fleet maintenance to the Contractor to ensure all processes provided by the previous fleet maintenance and management provider would still be conducted; determine any new processes needed to provide contract oversight, and designate clear lines of responsibility for these processes. In addition, no policies and procedures were written to clearly outline the processes and ensure accountability.

Effect: Without processes for proper oversight, the City could be assessed NCGS fines, pay for unnecessary repairs, to include repairs with excessive labor costs or unwarranted repairs for units where costs would exceed the unit's replacement value.

Recommendation

1. Establish and document clear, high quality and consistent, contract monitoring and compliance processes, to include but not limited to prior approval guidelines; monitoring for required annual safety and emissions inspections, and evaluating Contractor labor hours to industry standards.
2. Publish, communicate and implement written policies and procedures City-wide, to include but not limited to personnel who utilize fleet services.
3. Provide training on contract policies and procedures for compliance and monitoring.

Management's Response

Recommendation #1 is no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Recommendation #2: We concur. Management is in full agreement with the recommendation.

- a. Management will author and/or update the current policies and procedures, as relates to fleet management and maintenance.
- b. The policies and procedures will be developed with the assistance, concurrence of the "fleet committee" and authorized by the City Manager's Office.

Recommendation #3: We concur. Management is in full agreement with the recommendation.

- a. Management will prepare and schedule appropriate training.

Responsible Party: Chief Financial Officer or his/her Designee

Implementation Date:

Recommendation #2: December 31, 2021 – Develop a comprehensive Fleet Maintenance and Management Policy and Procedures Manual.

Recommendation #3: March 31, 2022

Finding 4

Reports and invoices were insufficient for contract management and financial oversight.

Criteria: The contract was specific on records and reporting requirements of the Contractor, including access to books and records, management report, general records and files, weekly reports, monthly report, annual performance report, the management information system (MIS) and public records.

The records, along with read only access to the Contractor's Management Information System and the data contained within the system, were for the purpose of auditing and verifying cost of work.

The Contractor was required to use a compatible computerized record keeping system capable of providing information in the form of a management report with specific details reflected in the Contract.

General records and files to ensure accurate and up-to-date information of maintenance and repairs were required by the contract to include a unit history folder, preventative maintenance records, repair orders, daily log, time cards, payroll time sheets, transmittals, and miscellaneous records. The contract required all records and report forms to be reviewed and approved by the City prior to use under the general records and files section.

Specifically, the contract required a written repair order for each unit the Contractor serviced. One (1) copy each was required to be provided to the City agency responsible for the unit and to the contracting officer. The Contractor's copy was required to be kept in the Unit History Folder.

In addition, the Contractor was required to prepare a unit-of-service total invoicing after each repair or preventative maintenance, to include all cost subcategories relevant to the costing methodology. It was to provide a complete cost of work performed and to break out the costs by type of service, vehicle, equipment and department assigned.

Condition:

1. The City did not receive or require from the Contractor the comprehensive listing of records and reports identified in the contract to assess the fleet maintenance services. Additionally, the reports that were provided by the Contractor were inconsistent, limiting management's ability for proper oversight.
2. Multiple repair orders were opened for a unit making it difficult to determine the initial request as well as all supplemental repairs completed.
3. Repair orders reflecting parts only or subcontracted services did not show the date the service was provided.
4. Subcontracted service invoices to include a description of work completed were not accessible to the City within the reports portal or in the unit's history folder.
5. Repair orders were not closed when the repair was considered complete and the unit was released from the Contractor.
6. Repairs completed could not be viewed on the Contractor's Management Information System until the repair order was closed.
7. The unit's designation as well as the repair's designation of target or non-target were not included on reports within the Contractor's reporting portal.
8. The coding on repair orders for repair reasons, component descriptions, and technician comments were inconsistent and unreliable.
9. Reports, to include daily downtime reporting and the supporting documentation for monthly invoices were not accessible in the Contractor's reporting portal and were only received via email.

Cause: Management did not ensure inconsistencies in reports were addressed to provide adequate oversight of repairs completed. In addition, there was no request for copies of repair orders or unit-of-service total invoicing to determine the cost, the designation of target or non-target and the work completed on a unit.

The information necessary to fully track unit repairs, to include sufficient information on repair details, dates and times were not requested. Lastly, the repairs orders were not required or requested to be closed at the time of completion.

Effect: Without timely and detailed repair information, the City is unable to track the repairs on units which increases the risk of being charged for re-repair (rework), warranty work, and duplication of costs. Without reliable and complete reporting, adequate oversight cannot be provided.

Recommendation

1. Enforce contract provisions for reporting and record keeping, to include but not limited to requiring one copy of all repair orders be provided to contracting officer and City agency responsible for the unit when unit is released from facility.
2. Establish a consistent review of the Contractor's invoices and reporting to ensure accuracy, completeness.
3. Consider requesting from the Contractor:
 - a. Time stamped reports for all services to include parts requests and subcontracted services;
 - b. All repair orders associated with a unit to be closed at the time the unit is released from the Contractor;
 - c. The ability to review invoices from subcontracted services on the Contractor's Management Information System; and
 - d. The ability to determine target versus non-target costs when generating a report from the Contractor's system.
4. Ensure reliable and consistent information is provided from the Contractor related to the coding on repair orders for repair reasons, component descriptions, and technician comments.

Management's Response

Recommendations are no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 5

The listing of City units, as shown in the contract's Attachment A, was not complete or amended during the fiscal year.

Criteria: The contract defined the fleet as the 1,350 vehicle and pieces of equipment and any units that may be added or deleted. It also defined units as owned, leased or operated by the City and identified in the listing on Attachment A or as amended by the City.

The designation of target and non-target units was also identified on Attachment A and was based on the Life Cycle Guidelines in Attachment C. In addition to the Life Cycle Guidelines, units may be designated as target units by the City and Contractor after refurbishment, assessment, or other actions through a revision to the fleet inventory Attachment A.

Additionally, excluded equipment was referred to in the contract as a non-target cost for repairs to equipment not specifically included in the fleet inventory covered by the agreement.

The contract further stated all prior and planned changes to fleet inventory would become a part of target fleet and the target cost model annually. However, increases in fleet size for each unit classification in excess of 5% would be treated as non-target units until the next annual adjustment. Decreases in fleet size would also be captured during the annual adjustment.

Condition:

1. City management did not ensure Attachment A was a complete listing of units, to include the prior and planned changes to the fleet as reflected on the City's vehicle replacement plan at the start of the

contract on July 1, 2019⁸. Internal Audit noted repair orders for units acquired prior to the execution of the contract charged as non-target because the units were not part of the executed agreement, therefore, deemed excluded equipment. The contract only refers to repairs on equipment as excluded, indicating vehicles are not excluded.

2. An annual adjustment to the fleet inventory was notated within the contract terms but not defined to address when the adjustment should take place.
3. Furthermore, the process to place units on Attachment A outside of an annual adjustment was not clear.

Cause: The contract was executed with the listing of units on Attachment A created during the request for proposal in 2018. The inventory was incomplete and not amended to reflect all City units or units on the Fiscal Year 2020 vehicle replacement plan. The contract stated an annual adjustment will be conducted; however, no adjustments were made.

Effect: Without clear guidance in the contract on amending Attachment A, the City runs the risk of being charged additional non-target costs as excluded equipment.

Recommendation

1. Conduct an inventory of all owned and leased City units to be serviced by the Contractor and amend Attachment A.
2. Amend the contract terms to establish when the annual adjustment will take place, and the process for units to be placed on Attachment A outside of the annual adjustment, ensuring clear and specific deliverables.

Management's Response

Recommendations are no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 6

The process for evaluating life cycle guidelines was not defined in the contract.

Criteria: Life Cycle Guidelines determine when a unit becomes non-target and were described in Attachment C. The attachment included a unit category followed by a unit type. Each unit type was assigned a life cycle based on a maximum age and mileage/hours reading, whichever comes first, to shift target units to non-target. The life cycle guidelines were baselines used in the creation of the Attachment A fleet inventory.

The contract allowed the Contractor to charge a non-target cost for units outside of life cycle guidelines, Attachment C.

Condition:

1. The City allowed target units to be charged non-target costs without notification or validation that the units were outside of life cycle guidelines, Attachment C.
2. The City allowed bulk changes to unit designations from target to non-target on July 1, 2019 and January 1, 2020 without an amendment to Attachment A.

Cause: The contract did not address the starting date of a unit's life cycle. In addition, Attachment A did not provide the category or type of unit to clearly identify the guidelines used to determine the unit's life cycle. The contract also did not address the notification and approval process when a unit exceeded its target life cycle causing units to be charged for non-target repairs regardless of the designation reflected on Attachment A.

⁸ Vehicle replacement plan units for the FY2020 budget

Effect: The City runs the risk of being charged additional non-target costs for units previously designated as a target unit.

Recommendation

Amend the contract terms to reflect the following:

- a. Starting date of a unit's life cycle, to include providing the life cycle category or type of unit that coincides with the life cycle guidelines on Attachment A.
- b. Notification and approval process when units are no longer designated target due to the life cycle guidelines in Attachment C.

Management's Response

Recommendation is no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 7

Non-target costs invoiced due to neglect or abuse did not always conform to contract requirements.

Criteria:

Non-target costs included fleet maintenance services paid monthly at the Contractor's actual incurred costs, to include the mark-up rates of 5% for parts and 1.5% for subcontracted service.

The contract allowed the Contractor to charge non-target costs on both target and non-target units. Non-target work included: accidents, capital improvements, operating and physical damage, excluded equipment, modification, other services and units outside of life cycle guidelines, Attachment C.

The contract required abuse to be demonstrated by the Contractor to the City. In addition, the Contractor had the responsibility to identify any evidence of abuse, misuse, or obvious error by the operator resulting in physical damage to the unit and provide the City with documentation of the suspected abuse as part of the next day daily report to the City.

Condition:

1. Non-target costs, to include markup rates, were charged on target units due to abuse; however, the abuse was not always demonstrated to the City by the Contractor.
2. When non-target work was performed on target units, target work not related to the abuse was invoiced as non-target work on the same repair order.

Cause: Daily and monthly reports provided to the City by the Contractor did not always reflect the non-target work and costs caused by neglect or abuse, as required by the contract. City management did not follow-up and request documentation to substantiate the non-target costs on target units.

Effect: When contract requirements are not followed and sufficient reviews are not performed, there is no assurance the services paid were based on contract terms. As a result, non-target costs paid did not comply with contract terms, and the City overpaid for fleet services.

Recommendation

1. Review repair details to identify units reflecting costs inconsistent with the unit's target/non-target designation.
2. Review actual charges for every accident or alleged incident of neglect or abuse to the approved estimates.
3. Establish a process to identify types of neglect and abuse, communicate incidents to management for operator responsibility and provide additional training on equipment and vehicles to mitigate the damages.

4. Clarify contract terms to define when non-target work can be charged on target units, to include but not limited to a definitive list of non-target work.

Management's Response

Recommendations are no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 8

Standard daytime operational hours were charged as non-target costs on target and non-target units.

Criteria: The contract stated the Contractor will perform all services with regards to target units for actual incurred costs including, personnel up to the maximum identified in target cost commitment, Attachment D. Furthermore, labor costs during standard daytime operational hours would not be charged as non-target costs for non-target units.

In addition, Attachment D reflected the hourly rate of \$44.85 only applied outside normal daytime business hours for non-target repairs.

Condition: Non-target costs were charged on target and non-target units for labor during standard daytime operational hours in violation of the contract.

Cause: The contract did not define a situation in which labor during standard daytime operational hours would be invoiced to the City as a non-target cost. However, the Contractor did not interpret the contract to mean daytime labor would never be charged for units identified within the contract.

Furthermore, management did not ensure inconsistencies were addressed with the Contractor, and memorialized with an amendment to the contract for daytime labor charges invoiced to the City.

Effect: The City was overcharged non-target costs resulting in an overall increase in fleet maintenance costs.

Recommendation

Develop clear and verifiable contract terms as it relates to costs associated with standard daytime labor hours.

Management's Response

Recommendation is no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 9

The contract terms for towing services, mobile service unit, and emergency road calls were nonexistent or did not provide clear direction.

Criteria: The contract's scope of service stated the Contractor would provide towing as may be required. Additionally, the contract specifically addressed towing services within the "road calls" section stating the City towing Contractors would be dispatched to retrieve and deliver the unit to the facility for service.

The contract allowed the Contractor to invoice the City non-target costs for services provided by the Contractor at the request of the City not specifically defined in the agreement.

The contract's scope of service explained a mobile service unit would be provided to assure the continuity of effective and economical operation of the units. The Contractor would operate a mobile service unit for

minor repairs and preventative maintenance onsite when doing so was technically feasible and reduced downtime.

Condition:

1. The contract did not state all costs related to subcontracted towing services were to be invoiced as non-target costs for target units. Therefore, towing costs would be charged based on the target cost model for target units. However, towing was invoiced as non-target costs with the 1.5% subcontracted services markup on target units.
2. The contract did not define “road calls;” the section only applied to towing. This allowed “emergency road calls” to be considered “other services” and charged as non-target work. Internal Audit noted repair orders for the Fire and Solid Waste departments with emergency road calls charged as non-target costs for target units. However, the repairs could be considered a service provided by the mobile service unit.
3. The mobile service unit was not used in a capacity that met the City’s expectations.

Cause: Management did not ensure inconsistencies were addressed with the Contractor and memorialized with an amendment to the contract when practices deviated from contract requirements, for example non-target costs for towing target units.

Feedback during the request for proposal process indicated the City decided to omit road call requirements. The direction in this feedback was if the units were inoperable the City towing Contractors would be dispatched to retrieve and deliver the unit to the appropriate fleet maintenance provider. Therefore, emergency road calls was not a part of the scope of services within the contract.

The contract did not define services applicable to road call and mobile service unit, to include if the costs would be charged based on the target cost model, allowing services to be charged as non-target work.

Effect: Without clear guidance in the contract on the services provided, to include differentiation between road calls and the mobile service unit, the City runs the risk of being charged by the Contractor non-target costs under “other services”.

Recommendation

Amend the contact terms as it relates to the scope of service for towing, road calls and the mobile service unit that will provide clarification, including but not limited to costing methodology and clear and specific deliverables.

Management’s Response

Recommendation is no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 10

Repair and parts requests were considered by the Contractor as directed work.

Criteria: The contract allowed the City to instruct the Contractor to perform additional tasks related to the proper management and upkeep of the Fleet as directed work. It required the City to send the Contractor a written task order detailing tasks to be performed and in return the Contractor would submit a proposal to perform the tasks on a targeted price basis that itemizes the direct labor, parts, sub-contracted services, and materials. The City would accept or reject the proposal.

The contract also included a quick fix repair option for minor repairs of less than one-hour duration when the unit operator chose to wait for service. Units repaired under Quick Fix would be moved to top priority.

Condition:

1. Based on Internal Audit inquiry, directed work was used as validation for non-target costs, but no written task order, proposal or approval was provided.
2. Non-target costs were charged on target units when the operator of the unit requested work to be completed same day, and the Contractor had to adjust to accommodate the request.
3. Quick fix services were an option in the contract for minor repairs but no clarification was provided to determine when this option was applicable or when the work completed would be considered “directed.”
4. Parts only requests were deemed not part of the contract scope and invoiced as non-target regardless of the associated unit’s designation.

Cause: Contract requirements for the task order and accepted proposals in relation to directed work were not clear or followed to determine when this contract provision was applicable. The City representatives authorized to direct work were not clear. Work on non-target units was postponed to the second shift (5pm-12am) when the hourly rate for labor became a non-target cost.

Effect: Non-target costs increased when the requirements within the contract were not enforced for directed work or quick fixes.

Recommendation

Amend the contract terms to clarify directed work and quick fixes to include costing methodology, specific deliverables and individuals approved to initiate, review, and approve directed work task orders.

Management’s Response

Recommendation is no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 11

Standards were not enforced for the Contractor’s performance.

Criteria: Performance measurement was the process of identifying indicators that would demonstrate the Contractor’s efficiency and effectiveness in delivering the City’s fleet maintenance services. The contract specified performance measures for downtime, fleet availability, turnaround, rework and preventative maintenance.

The contract established performance standards to minimize downtime. These standards allowed the City to assess penalties if the Contractor did not meet the defined standards in Attachment E for daily fleet availability; monthly downtime; preventative maintenance turnaround and compliance, and rework.

The contract excluded the following from the calculation of downtime: non-target units or repairs, units awaiting repair authorization, and units specifically exempted by the City.

Condition: The City did not track the Contractor’s adherence to the performance standards or assess any penalties for downtime. The City did not evaluate the necessity of both non-target and target units for City operations and identify the need to track downtime for both target and non-target units.

Cause: The contract was not clear in calculating the monthly penalty or clarify if the penalty was per unit or a flat rate per month for each category identified in Attachment E. In addition, the City did not implement a method for tracking downtime, documenting excessive downtime or amend the contract as necessary.

Effect: Without performance standards, management is unable to develop solid budget justifications and is unable to measure the effectiveness and efficiency of the Contractor for proper oversight and accountability.

Recommendation

1. Amend the contract to include clear, quantifiable and enforceable performance standards, to include identifying the fleet services that are excluded from the performance standards.
2. Establish and document a process to monitor the performance standards and assess penalties as necessary.

Management's Response

Recommendations are no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 12

The City was overcharged for fleet maintenance services.

Criteria: The City should have established and provided adequate financial oversight to include a review of the repair orders and invoices each month prior to payment. The review should have determined if the City was invoiced in accordance with contract terms and not invoiced for duplicate or erroneous charges.

The contract required the Contractor to track and identify multiple repairs for the same deficiency in the same unit (rework) which would not be billed to the City.

For warranted parts, the contract required the Contractor to warrant products supplied for sixty days (60), or the length of time of any warranty given by the manufacturer or rebuilder/remanufacturer, whichever is greater, after acceptance by the City.

The contract stated accident repairs would be invoiced to the City without markup (1.5%).

Condition: The financial oversight was not sufficient to detect the following:

1. The City was charged for the same deficiency and/or parts more than once.
2. Labor hours exceeding 8 consecutive hours to include hours outside of the Contractor's hours of operation (between 12:01 AM to 6:59 AM) were invoiced.
3. Labor hours invoiced did not indicate the mechanics start or end time, only a total number of hours preventing Internal Audit from validating the total labor hours invoiced.
4. Subcontracted service amounts were invoiced under a repair order which did not clearly show all work performed, parts provided or service dates.
5. Warranty work, to include parts used by the Contractor were not documented preventing Internal Audit from identifying invalid charges to the City. Based on Internal Audit inquiry, warranty work was subcontracted.
6. Accident repairs were charged the 1.5% subcontracted services markup.

Cause: Reports and invoices were not sufficient to provide oversight for warranty work, rework and labor hours. However, the City did not request additional reports to include subcontracted service invoices. In addition, labor hours that appeared to be outside the operational hours of the contract and re-repairs were not addressed by the City.

Effect: The lack of detailed timely information increases the risk of the City being charged for re-repair (rework), warranty work, duplication of costs, or erroneous charges.

Recommendation

Ensure invoices and reporting contain sufficient detail to provide oversight for warranty work, rework and labor hours.

Management's Response

Recommendation is no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

Finding 13

Safety and emissions inspections and sales tax were not invoiced in compliance with the North Carolina General Statutes.

Criteria: The contract required the Contractor to comply with all applicable ordinance, statute, law or regulation which included North Carolina General Statute (NCGS) for safety and emissions inspection fees and sales and use tax.

Condition: The City was not invoiced in compliance with State guidelines in the following areas:

1. The City was invoiced over the maximum allowed by NCGS 20-183.7 for safety and emission inspections. In addition, NCGS 20-127 exempts law enforcement vehicles from window tinting restrictions. However, the City was invoiced for tinted window inspections on these vehicles.
2. Sales tax was invoiced at a flat 7% which incorrectly applied taxes on safety and emissions inspections and towing which were tax exempt services under NCGS 105-164.13. In addition, the City would be charged sales tax twice for subcontracted services if sales tax from the subcontracted service provider was included on the total charge to the City, and again when the 7% was applied to the monthly invoice.

Cause:

The City's review of the monthly invoices was not sufficient to determine how fees and sales tax were invoiced. As it relates to fees and sales tax invoiced by a third party, the City did not receive copies of the subcontracted service provider invoices to determine if the City was invoiced correctly.

Effect:

The City was invoiced and paid more than allowed by the North Carolina General Statutes.

Recommendation

Establish a review process that ensures safety and emissions and sales tax are invoiced as allowed by the North Carolina General Statutes.

Management's Response

Recommendation is no longer applicable, whereas, the Vector Contract was mutually dissolved June 30, 2021.

CONCLUSION

The Vector Fleet Contract was negotiated and executed with the intent for the Contractor to reduce overall fleet maintenance costs, improve fleet availability, increase fleet operating efficiency and improve services by providing best practices to the City fleet function. Although there are risks associated with every contractual relationship, this audit highlighted vague contract terms that made it difficult to understand the contract requirements, ultimately impacting the success of the fleet function. Additionally, lack of effective contract monitoring and oversight of the fleet contract created an environment that would be hard to detect fraud, waste and abuse.

Internal Audit identified additional areas creating risks for the City. These were not part of the conducted audit but will need to be addressed by City management to ensure high quality and effective fleet management:

- Compare actual repair costs versus the estimate reviewed and approved by the City;
- Tracking and documenting fixed assets as they pertain to the fleet inventory;
- Accident tracking and subrogating claims timely;

- Fuel management, to include the use of the AIMS fueling system and ending the use of fuel fobs; and
- Surplus units consistent with the City’s vehicle replacement plan, to include timely disposal of the units using GovDeals.

Although the management responses are included in the audit report, Internal Audit does not take responsibility for the sufficiency of these responses or the effective implementation of any corrective actions.

Internal Audit would like to thank the many departmental personnel for their dedication and numerous courtesies extended during the completion of this audit.

SUBSEQUENT REVIEW

Due to the exceptions identified, a subsequent review of information was conducted, but not audited. The review reflected \$537,713 (36.9% of total non-target costs) were charged on target units from March 2020 through June 2020 for fleet maintenance services. This amount included \$62,312 charged for standard daytime labor. Based on the contract, all services are to be performed in regards to target units, to include personnel up to the maximum of the target cost commitment. In addition, the subsequent review of non-target costs reflected \$5,428 in standard daytime labor costs for non-target units. The contract reflects labor costs for non-target units during standard daytime operational hours would not be charged as non-target costs. The review results were turned over to management for follow-up with the Contractor.

March 2020 through June 2020	Total Non-Target Costs	Total Target Units Charged Non-Target Costs	% of Non-Target by Fund
General Fund	\$818,442	\$162,391	19.8%
Environmental Fund	\$562,139	\$366,273	65.2%
Storm Water Fund	\$34,741	\$7,305	21.0%
Airport Fund	\$43,724	\$1,744	4.0%
TOTALS	\$1,459,046	\$537,713	36.9%

Distribution:

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