



Report to the Chief Operating Officer, Manager, Risk and Insurance Services, and the Director, Transportation and Distribution Services Department

March, 2016

DISTRICT VEHICLES

Review of the Use and Control of District Vehicles

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Internal Audit. Determinations of corrective action to be taken will be made by the appropriate San Diego Unified School District officials.

Abbreviations and Acronyms Used

Administrative Procedures	AP
Chief Operating Officer	COO
San Diego Unified School District	District
Employer Pull Notice	EPN
fiscal year 2015	FY-15
fiscal year 2016	FY-16
Information Technology Support Services	ITSS
Office of Internal Audit	OIA
Physical Plant Operations Department	PPO
Transportation and Distribution Services	Transportation

Highlights

Highlights of 16-07, a report to the Chief Operating Officer (COO) and the Manager, Risk and Insurance Services, and Director, Transportation and Distribution Services

Why OIA Did This Review

We included the review of the controls over District vehicles in our fiscal year 2015 and 2016 work plans.

OIA conducted this review to determine whether: (1) the District had policies and procedures in place to control the use of its vehicles; (2) school buses and administrative vehicles were accounted for; (3) the District complied with applicable laws and regulations; and (4) action had been taken by Police Services on a prior report.

What OIA Recommends

We recommend: the COO and the Manager, Risk and Insurance Services jointly develop District-wide policies and procedures for control and use of District owned and leased vehicles. We provided five recommendations to the Director of Transportation. These recommendations included: (1) adding additional drivers to the employer pull notice (EPN) program; (2) developing procedures for reporting the occurrence of an accident and damage to District vehicles; (3) developing policies for disposal of surplus vehicles; (4) developing cost-benefit analysis for leasing vehicles; and (5) require the use of Assetworks or additional analytical software to perform on going operational analysis.

The response from the COO, on behalf of the report's addressees stated they concurred with our recommendations.

District Vehicles

Review of the Use and Control of District Vehicles

What Did OIA Find

The Office of Internal Audit (OIA) found that the inventories of active school buses and administrative vehicles were well controlled. We did not identify unreconciled differences between the District's records and the actual vehicles. Further, we found that the District complied with Internal Revenue Service regulations for reporting taxable fringe benefits for vehicle use.

Additionally, the Police Services Department took appropriate corrective action on the recommendations in a prior review report on Police Services' vehicles issued in February 2012.

The District is experiencing challenges in the operation of its administrative fleet. The District lacks effective policies and procedures to assist in the control and oversight of the fleet. Not all drivers assigned administrative fleet vehicles were included in the monitoring program for drivers' records.

Due in part to the absence of policies and procedures and a surplus vehicle disposal plan, the District accumulated 106 surplus school buses.

Cost benefit analyses were not performed to support the leasing rather than purchase of administrative vehicles. This may have resulted in more funds, than necessary, being expended to lease instead of purchasing the needed vehicles.

Transportation did not use the data captured in the Assetworks system to conduct ongoing analysis of the fleets operations and to support the leasing and acquisition of vehicles. The District may have missed opportunities to identify additional cost savings with the school bus and administrative fleets.



22 March 2016

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This report summarizes the results of the review conducted by the Office of Internal Audit (OIA) of the San Diego Unified School District's (District) use and control of its owned and leased vehicles. This review was included as part of OIA's fiscal year 2015 (FY-15) and fiscal year 2016 (FY-16) annual work plans. Our review included the school buses, trucks, various sized vans, pick-up trucks and passenger cars owned or leased by the District. We did not include, trailers and off the road vehicles owned by the District.

Background

The District operates two distinct vehicle fleets. The first is composed of approximately 498 active school buses of various sizes and capacities obtained from various manufacturers. The second fleet, of various light vans, pickup trucks, and passenger cars includes 345 vehicles.¹

The second vehicle fleet is used to support the various administrative operations within SDUSD. These operations include Maintenance and Operations, Landscaping Services, Cafeteria/Food Services, Distribution Services, Information Technology Support Services (ITSS), and Police Services.² Vehicles from the administrative fleet are assigned to specific District departments and provided to District employees on an as-needed basis. The average age of the administrative fleet in these departments is 15.4 years old. The average age within specific departments ranges from 7.9 to 17.7 years. The average vehicle mileage is 148,887. Table 1 provides additional detail on the number

¹ The counts for school buses, light vans, pickups and passenger cars were taken from the District's inventory records as of 30 June 2014, with periodic updates during FY-15.

² For the purposes of this report we will refer to this fleet of vehicles as the administrative fleet.

of vehicles, age, and mileage of the vehicles assigned to the various departments.

Table 1: Vehicle Distribution and Age

Dept. ID	Department ^a	Number of Vehicles	Average Age	Average Mileage
5538A	ITSS	14	15.0	93,778
5557A	Mail Services	9	17.0	191,096
5600A	Custodial Services	7	9.0	114,158
5605A	Police Services	48	7.9	87,012
5610A	Maintenance	173	17.7	150,366
5620A	Distribution Services	8	13.0	159,725
5685A	Landscaping Services	22	16.4	153,826
8800A	Cafeteria/Food Services	43	15.4	245,133

Source: District Fixed Asset/Vehicle Records

Note: ^aThe table reflects only those departments where a significant number of vehicles were assigned. The District maintains an additional 21 vehicles assigned to multiple departments and locations not included in this analysis.

Results in Brief

The inventories of active school buses and the administrative fleet were well controlled. Our physical inventory of the school bus and administrative fleets did not identify any differences that could not be reconciled between the District’s records and the actual count of the vehicles and buses.

The District complied with the Internal Revenue Service regulations requiring the reporting of fringe benefits for those employees who were provided vehicles for home to work transportation.

We determined that the Police Services Department took appropriate corrective action to address the recommendations in a prior review report on the use of Police Services vehicles, issued on 29 February 2012.

We did find that the District experienced challenges in the management of its administrative fleet. These challenges included the absence of District wide policies and procedures for the operation, use, and control of the administrative fleet.

The District did not fully utilize its asset management and control system or additional analytical software to monitor the use of individual vehicles and the administrative fleet, as a whole. Analyses of vehicle operations were not performed to assist the Transportation and Distribution Services (Transportation) Department in the management of either fleet.

The Transportation Department did not conduct cost – benefit analysis to support management decision making regarding the maintenance and repair of vehicles. This may have adversely impacted the District by retaining and maintaining vehicles beyond

their expected useful lives, causing the District to lease vehicles to either replace vehicles that could no longer be maintained and safely operated or to meet mission critical needs; which could not be supported with available capital funding.

Summary of Recommendations

Our report includes six recommendations to address the causes of the conditions presented in this report. One recommendation is jointly addressed to the Chief Operating Officer (COO) and the Manager, Risk and Insurance Services to jointly develop District-wide policies and administrative procedures (AP) for the use and control of District owned and leased vehicles.

The balance of five recommendations is addressed to the Director, Transportation Department. These recommendations include in part:

- Include all the drivers from departments assigned administrative vehicles in the employer pull notice (EPN) system to monitor driver records;
- Develop policies and procedures for the reporting of damage to District owned and leased vehicles and the reporting of any accidents in which a District vehicle is involved. These policies and procedures should be coordinated with the District-wide AP to be developed by the Chief Operating Officer and the Manager, Risk and Insurance Services;
- Develop procedures to dispose of excess, out of service, school buses that are currently held by the District and on a go-forward basis;
- Develop a cost – benefit analysis to support the lease of District vehicles and for the development of a vehicle replacement program for both fleets; and
- Require the Transportation Department to the use of the Assetworks application or a new application to monitor District vehicles, and maintenance costs to support a cost benefit analysis of the District’s fleets and compliment an asset replacement program.

The COO responded to our recommendations on behalf of the addressees. The COO concurred with our recommendations and provided a series of corrective actions that would be taken. The corrective actions directly addressed the recommendations.

The response did not specifically contain a corrective action plan for recommendation 4; however the response to recommendations 1 and 5 included processes that we would have expected to be included in recommendation 4. We considered the corrective action plans to recommendation 5 to be responsive to recommendation 4.

Objectives, Scope, and Methodology

The objectives of our review included a determination of whether the:

- District had in place policies and procedures that addressed the control, use, operation of District vehicles, and home to work transportation of District employees;
- School buses and administrative vehicles were properly accounted for;
- District complied with applicable laws and regulations; and Police Services Department had taken action on the recommendations provided in a prior report.

To address our objectives, we took the following actions:

- Obtained an understanding of the system of internal controls in place for the District's vehicles including: (1) reviewing existing APs and individual department policies and procedures; (2) interviewing selected District management and staff regarding the operation and control of the vehicles; and (3) reviewed individual department policies and procedures for the use of District owned vehicles;
- Conducted a complete physical inventory of all District owned vehicles including documenting the location of the vehicles;
- Identified the District employees who were provided home to work transportation using District vehicles and determined whether the employee's compensation was adjusted to reflect the additional fringe benefits received;
- Reviewed the prior report addressed to Police Services and the outstanding recommendations and determined whether Police Services took sufficient action to address the recommendation.

The procedures and testing that we applied to our review of the District's controls for vehicles are not sufficient to constitute a review performed in accordance with generally accepted government auditing standards. Had OIA performed a review in accordance with generally accepted government auditing standards other matters may have come to our attention that we would have reported to you.

Use of Computer Processed Data

To meet our review's objectives we obtained data from the Assetworks system maintained by the Transportation Department and the District's financial management system. We validated the data by matching the extracts from both systems to identify any exceptions. Additionally, we used the data from both systems to conduct inventories of the school bus fleet and the administrative

fleet. We found that the data from both systems was sufficiently reliable for the purposes of this review.

Prior Review Coverage

During the past five years OIA has issued one report, listed below, on the subject matter related to this review.

- Police Services Department: *Review of Police Services Vehicle Usage*, 29 February 2012.

Absence of Comprehensive Vehicle Use Policies and Procedures

The District, at the time of this review, did not have comprehensive policies and procedures for the operation, use, and control for the District's fleets of vehicles. The current District APs were limited to AP 7190, *District Cars for Designated Employees*, and AP 2150, *Employee Payment for the Use of Personal Card*.

With the exception of section C.3 of AP 7190, requiring the reporting of the personal use of District vehicles for home to work transportation as a taxable fringe benefit; the balance of this AP discusses providing designated District employees with vehicles and limited requirements for their use. We found no evidence that the District currently provides cars to District employees, with the limited exception of Police Services.

AP 2510, *Employee Payment for the Use of Personal Car*, provides the process for an employee to request mileage reimbursement for District related travel. This AP falls outside the scope of this review.

The District does not require that the use of its vehicles be documented and controlled. Employees are not required to maintain "trip tickets" or mileage logs documenting the use of the vehicle and the mileage driven. With the exception of motor vehicle accidents that might result in litigation,³ employees are not required to report all damage to District vehicles. We did not identify any restrictions on non-employees of the District operating the vehicles or being a passenger in a District vehicle. As a result, the District is unable to provide a reasonable assurance that its vehicles are used for District business, and the vehicles are properly operated and controlled.

Policies and procedures help to enforce the District management's directives, and assist in ensuring that risks of the operations are addressed. Policies are an integral part of the District's planning, implementing, and reviewing is stewardship of government resources and achieving effective results.

³ AP 7180, *Employee Liability*, § D.1

Recommendation

1. OIA recommends that the COO and Manager, Risk and Insurance Services develop comprehensive policies and procedures for the operation, control, and maintenance of inventory and maintenance records for all District owned and leased vehicles. Updates and cancellations of the current APs should be included as part of this procedural development effort.

Transportation's Fleet Management Faces Challenges

Transportation faces a number of challenges in the operation of the District's fleets. Not all of the individuals who operate District vehicles are tracked for adverse actions affecting their ability to operate a vehicle. Not all the departments who operate vehicles require that an accident report be filed for damages to a District vehicle. The absence of sufficient vehicles for the Physical Plant Operations Department (PPO) resulted in the District incurring additional costs for leasing vehicles. Transportation has not developed a plan to address the disposal of its current surplus school buses which may negatively impact revenues that are available to the District. The Assetworks application is not fully utilized to support the ongoing analysis of individual vehicle and fleet operations resulting in the absence of data to support current operations and future vehicle leases or acquisitions.

Operator License Reviews

Transportation participates in the State of California's Department of Motor Vehicle's Employer Pull Notice (EPN) program for its school bus drivers. EPN provides governments and private sector employers with information on individual driver records. This allows governments employers to promote safe vehicle operation and assists in ensuring that the drivers in the program maintain the proper license to operate the vehicles.

Not all drivers assigned vehicles, from the administrative fleet, are enrolled in this program.⁴ The absence of these drivers has the potential of creating a condition where a driver could be operating a District vehicle without a valid license. An invalid operator also increases the risk a financial liability for the District, should the employee be involved in an accident.

Completion of Accident Reports

Not all of the departments assigned administrative fleet vehicles require employees complete an accident report for District vehicles involved in an accident. Specifically, we found that employees assigned to PPO were not required to complete the report.

A best business practice is that all employees be required to report all damage and accidents involving a District vehicle. This practice

⁴ The Police Services Department's officers are verified by the Department through alternative means.

assists Transportation in assessing the condition of the vehicles, and monitoring for potential safety issues in operating the District's fleets. Further, it would reduce the wide discretion involved in compliance with the AP 7180 and determining whether the accident may result in litigation.

Excess School Bus Inventory

During our review of the District's school bus inventory we identified 106 buses stored at Transportation that were no longer used to transport students. The buses were deemed as "out of service" and no longer used for pupil transportation. In our discussions with the Transportation staff they provided us with data on the buses and the District's past process for disposing of this excess property. Based on the information that Transportation provided to us, it appears that the majority of the surplus buses would have some monetary value when sold at auction.

Transportation has not developed policies and procedures to address the management and disposal of the excess buses on a large scale. A limited number of individual buses have been sold at auction. The absence of policies and procedures for disposal may have resulted in the District accumulating vehicles unnecessarily, potentially reducing the revenues from the disposal due to the age of the buses. Further, these buses are no longer performing a function and could be a liability in storage.

We are aware that it would not be feasible for the District to attempt to sell all of the excess vehicles at one time. This action could further depress the prices for vehicles, due to the limited market for these vehicles. Transportation should consider these factors as they identify and plan of which of the buses assets should be disposed of and the timing of the disposal.

Financial Analysis to Support Leasing

As part of our review, we identified vehicles that were leased by various District departments. The leases were done because Transportation did not have the vehicular assets available to support the department's requirements. During the period July 2014 to May 2015, the District expended \$67,368 in lease payments for these vehicles.

Leasing vehicles provides some significant advantages to the District, including the ability to return the vehicles at the close of the lease and obtaining newer models through either execution of an additional lease or purchase. Leasing may also provide an alternative to obtain needed capital equipment, when capital funds are not available. The cost of the lease versus acquisition through capital funds should be evaluated to determine the cost differential between the two potential acquisition methods. The analysis can

assist in determining the most economical method and whether the vehicle should be acquired at the end of the lease.

Transportation or the individual departments receiving the vehicles did not prepare a financial analysis that would support the leasing of the vehicle rather than purchasing the vehicle. The preparation of a financial analysis to support the lease is a best business practice and may highlight any significant differences in the costs between leasing and capital acquisition. Without the analysis the District may have expended more funds than necessary to lease the equipment.

Comprehensive Analysis of Fleet Operations

The District purchased the software application Assetworks to assist in the oversight and control of the vehicle fleets. In addition to maintaining an asset listing of District vehicles, data regarding the vehicle's location, fuel use, mileage and other data elements are maintained in the database. However, Transportation does not have practices in place to perform data analysis on either fleet. The absence of the data analysis may adversely impact Transportation by limiting managers to the data necessary to effectively manage the fleet.

For example, comparison of the vehicle's fuel use against national and fleet averages may indicate vehicles that are potentially wasting fuel. By performing an analysis of the maintenance cost for the vehicles Transportation can make data supported decisions regarding the efficacy of repairing a vehicle or determining that it needs to be replaced. Similarly, this analysis can be used to identify vehicles that are not fully utilized by the departments.

A program of on-going data analysis is a best practice for any organization. It can provide the Transportation and the District with data to support the need for increases in budgets for items such as fuel, vehicle parts and supplies, and use of external maintenance facilities. Further, it can be used to support a continuous asset maintenance and replacement program.

Recommendations

The Director of Transportation should take the following actions:

2. Direct that authorized drivers of administrative fleet vehicles be included in the EPN system, and develop a procedure for the update, inclusion, or removal of the authorized drivers as needed;
3. Develop, in coordination with the COO and the Manager, Risk and Insurance Services, District-wide procedures, requiring all District drivers to report all accidents and damage to District owned and leased vehicles;

4. Develop, policies and procedures for the current and future disposal of excess school buses including consideration alternative vehicle uses and for market conditions;
5. Develop, with the assistance of the departments involved, procedures for the development of cost – benefit analyses to support the decision to lease or purchase vehicles.
6. Require that the Transportation staff use the data within Assetworks to conduct ongoing analysis of individual vehicles and fleet operations. Analysis results should be forwarded to Transportation management including any recommended actions.

Contributor

Clark Simington, CIA, CGAP, Audit Manager, is the principal contributor to this report.

Copies of the final report will be provided to the Board of Education, Audit and Finance Committee, Superintendent of Public Education, the General Counsel, and the Chief of Staff. We will include a copy of the report on the District’s webpage at <https://www.sandiegounified.org/audit-reports>. Should you have any questions regarding this report please contact Mr. Simington at csimington@sandi.net or at 619.725.5698; you may also contact me at jcashmon@sandi.net or at 619.725.5696.



John M. Cashmon
Director, Internal Audit



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MEMORANDUM

TO: John M. Cashmon
Director, Office of Internal Audit

FROM: W. D. Rowlands ^{WR}

DATE: March 17, 2016

SUBJECT: Response to DRAFT REPORT – District Vehicles: Review of the Use and Control of District Vehicles; Report Number 16-07

Thank you for conducting the review of the Use and Control of District Vehicles. Mr. Simington completed a thorough and fair review. Below are responses to the findings and six recommendations presented in the draft report.

Recommendation 1:

OIA recommends that the COO and Manager, Risk and Insurance Services develop comprehensive policies and procedures for the operation, control, and maintenance of inventory and maintenance records for all district-owned and leased vehicles.

Concur. A comprehensive document, most likely following the California School Boards Association Administrative Regulation format will be developed for approval by the Board of Trustees. The document will address the concepts suggested in the OIA recommendation above plus appropriate guidance related to the other recommendations identified in the report. We anticipate completing the document by July 1, 2016. The Chief Operations Officer office will have the lead in this task with support from the Transportation and Distribution Services Department, the Risk and Insurance Services Department and other District departments.

Recommendation 2:

Direct that authorized drivers of administrative fleet vehicles be included in the EPN system and develop a procedure for the update, inclusion, or removal of the authorized drivers as needed.

Concur. All drivers assigned a District owned vehicle for use in the course of the performance of their duties will be included in the State's Electronic Pull Notice program. This task will be completed by June 30, 2016. This task is assigned to the Transportation Operations Manager. Additionally, this area will be addressed within the document addressed in Recommendation 1 above.

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Recommendation 3:

Develop, in coordination with the COO and the Manager, Risk and Insurance Services, District-wide procedures requiring all District drivers to report all accidents and damage to District owned and leased vehicles.

Policies and Procedures are already in place for all School Busses per requirements of the California Highway Patrol and Department of Motor Vehicles. Policies and procedures for all other District vehicles are in development and will be completed no later than June 30, 2016. We anticipate including this policy and related procedures in the District Policy and Procedure for the use, management and control of District owned and lease vehicles being developed by the Chief Operating Officer and Manager, Risk and Insurance Services in response to this review.

Recommendation 4:

Develop, policies and procedures for the current and future disposal of excess school buses including consideration (of) alternative vehicles uses for market conditions.

Recommendation:

- Develop a cost/benefit analysis to support the leasing or purchase of vehicles and to support the retirement and disposal of excess vehicular assets.

Recommendation 5:

Develop, with the assistance of the departments involved, procedures for the development of cost – benefit analyses to support the decision to lease or purchase vehicles.

A cost benefit analysis has been completed with the result of district establishing a benchmark vehicle age for the replacement of non-School Bus vehicles of 10 years and 20 years for School Buses with a refresh at approximately the 12th to 15th year (Refresh will consist of replacement of major drive train components as well as paint and flooring and seating replacement). Funding methods are in development to replace all current vehicles that are outside of this life cycle as well as sufficient annual funding set aside to maintain this life cycle going forward. The Transportation department will continue to pursue/review any alternatives for meeting the operational needs of the district Fleet such as Leasing and or accelerated replacement. This initial cost/benefit analysis is completed and we anticipate having the funding source in place by mid to late Summer of 2016.

Recommendation 6:

Require that the Transportation staff use the data within Assetworks to conduct ongoing analysis of individual vehicles and fleet operations. Analysis results should be forwarded to the Transportation management including any recommended actions.

From the preventive maintenance side the Assetworks systems is already in full use for scheduling the required services for our school bus fleet ensuring required inspections and services are completed within the required Mileage or time frame in line with CHP and DMV regulations. This works very well for our School Bus Fleet due to each bus being equipped with an on board system that includes GPS, Pre trip and Post trip inspections and Vehicle operation reporting including Speed, braking, and Odometer reading updates. Odometer reading for our White Fleet is updated

Memorandum to John Cashmon - Response to DRAFT REPORT – District Vehicles: Review of the Use and Control of District Vehicles; Report Number 16-07

Page 3

March 17, 2016

through our EJ Ward fueling system, this system is due for an upgrade and we are including the GPS tracking and onboard reporting capabilities in those upgrades/replacement. For the present time we are continuing to develop a system to notify departments when any of their district vehicles are due for service. This will allow greater efficiency by allowing us to schedule these services to minimize down time and impact on district operations. The Assetworks system is available at each service bay so Mechanics can reference past repairs as well as entering current repairs in real time. Any major repair needs are assessed against the vehicle life and condition before proceeding. We are continuing incorporate the features of the Assetworks system in particular the ability to project workload and potential replacement requirements allowing us to manage the fleet rather than it managing us. The Garage Supervisor, Lead Mechanics, and Transportation Operations Manager will carry the majority of the load in continuing to move this system along.

c: A. Fenton
G. Robinson

Response to vehicle audit