GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

AUDIT OF THE DEPARTMENT OF PUBLIC WORKS FLEET MANAGEMENT ADMINISTRATION'S BILLING PRACTICES

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 06-2-11KT **September 18, 2007**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

September 18, 2007

William O. Howland, Jr.
Director
Department of Public Works
2000 14th Street, NW, 6th Floor
Washington, D.C. 20009

Dear Mr. Howland:

Enclosed is our final audit report summarizing the results of the Office of the Inspector General's (OIG) *Audit of the Department of Public Works Fleet Management Administration's Billing Practices* (OIG No. 06-2-11KT).

As a result of our audit, we directed five recommendations for necessary action to correct the described deficiencies. We received a response from the Department of Public Works (DPW) on September 10, 2007, to a draft of this report. DPW's responses fully addressed all of the recommendations and we consider the actions currently on-going or planned to be responsive to each recommendation. The full text of DPW's response is included at Exhibit B.

We appreciated the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

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AUDIT OF THE DEPARTMENT OF PUBLIC WORKS FLEET MANAGEMENT ADMINISTRATION'S BILLING PRACTICES

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EXECUTIVE DIGEST

OVERVIEW

At the request of the Director, District of Columbia Department of Public Works (DPW), the Office of the Inspector General (OIG) has completed an audit of the DPW Fleet Management Administration's (FMA's) Billing Practices.

DPW's mission is to provide sanitation, parking enforcement, municipal vehicle maintenance, and energy-related services to residents of the District of Columbia, visitors, and businesses to ensure safe, clean, and aesthetic neighborhoods and public spaces. DPW provides municipal services in two distinct areas: environmental services/solid waste management and parking enforcement. The DPW Solid Waste Management Administration performs a number of daily operations, including trash and recycling collection, sanitation enforcement, fall leaf collection, and street and alley cleaning. The Parking Services Administration is responsible for enforcing the District of Columbia's street parking laws.

The FMA supports municipal operations by procuring, fueling, and maintaining thousands of District government vehicles, from sedans and trucks to heavy equipment, used by all agencies under the authority of the Mayor of the District of Columbia.[1] FMA is responsible for management oversight and establishing policies, procedures, and standards covering the vehicles. The FMA fiscal year (FY) 2006 approved budget of $17.9 million represented 15 percent of the DPW total budget of $115.5 million, and is a 27-percent increase over the FMA FY 2005 approved budget of $14 million. FMA's FY 2007 proposed budget is $23.7 million.

FMA uses an automated fleet management information system (FASTER) to manage the District fleet. According to FASTER, the acquisition cost of approximately 3,100 vehicles in the District fleet as of September 31, 2006, was about $91 million. In addition, FMA provides fuel and lubricants for an additional 3,000 vehicles assigned to the Metropolitan Police Department, Fire and Emergency Medical Services, District of Columbia Public Schools, and the Water and Sewer Authority.

The overall objectives of the audit were to determine whether FMA: (1) complied with fleet management policies and procedures regarding billing rates and the methodology for markups on parts and outsourced services and (2) implemented adequate internal controls to guard against fraud, waste, and abuse.

[1] FMA is not responsible for managing vehicles assigned to the Metropolitan Police Department, the Department of Corrections, and Fire and Emergency Medical Services. In addition, FMA is not responsible for vehicles assigned to independent agencies not under the direct authority of the Mayor.

EXECUTIVE DIGEST

CONCLUSIONS

The audit disclosed that although FMA officials were in the process of identifying the data needed to support the basis of billing rates for fleet management services, they could not adequately support the fully burdened[2] shop labor rate for maintenance services and the markups on parts and other fleet services provided by the vehicle acquisition department. In addition, FMA officials did not always comply with policies and procedures related to calculating billing rates for fleet services. As a result, FMA did not recover at least $1 million in operating costs for FY 2006 and has no assurance that the agency can recover its operating costs for FY 2007 and beyond.[3] In addition, FMA officials could not accurately allocate the cost of providing fleet services to District agencies without properly identifying, recording, and classifying actual direct and indirect operating costs.

MANAGEMENT ACTIONS

During the audit, we brought these matters to the attention of FMA officials who agreed with our conclusions and have taken or agreed to take corrective actions. For example, officials were in the process of using fleet certification software (Fleet Counselor) to identify and classify the direct and indirect operating costs needed to fully support the basis of billing rates for fleet services. Fleet Counselor contains a detailed, activity-based costing analysis that can be used to determine fully burdened shop labor rates and markups. The use of Fleet Counselor is an important step in the right direction; however, the ability of FMA to properly determine fully burdened shop labor rates and markups depends upon the accuracy of the evaluations prepared by FMA officials and the labor-hours recorded in FASTER.

SUMMARY OF RECOMMENDATIONS

We directed five recommendations to the Director, DPW, that focused on: (1) establishing a system to identify, record, and classify the actual direct and indirect cost of operations needed to determine the fully burdened shop labor rate and the markups on fleet services; (2) establishing internal controls related to data accuracy and monitoring of mechanic compliance with log in and log out requirements; (3) revising policies and procedures after determining the method to be used for calculating billing rates, as well as monitoring FMA compliance with policies and procedures; and (4) reviewing proposed rates and rate changes (when developed using estimates) to determine the reasonableness and accuracy of assumptions and calculations for costs, revenues, and rates.

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[2] A fully burdened shop rate includes all direct and indirect costs, as well as other costs such as uniforms, office supplies, training costs, etc. that are not recaptured through markups or other charges.

[3] The under recovery of $1 million in operating costs for FY 2006 did not result in an Anti-Deficiency Act violation because the DPW Agency Fiscal Officer monitored fleet spending, projected spending surpluses and deficits, and submitted a budget modification to cover the shortage. The Chief Financial Officer reprogrammed funds to cover the shortage.

EXECUTIVE DIGEST

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

MANAGEMENT RESPONSES AND OIG COMMENTS

DPW provided written responses to our draft report on September 10, 2007. We consider the actions currently on-going or planned to be responsive to our recommendations. The full text of DPW's response is included at Exhibit B.

INTRODUCTION

BACKGROUND

At the request of the Director, District of Columbia Department of Public Works (DPW), the Office of the Inspector General (OIG) has completed an audit of the DPW Fleet Management Administration's (FMA's) Billing Practices. DPW's mission is to provide sanitation, parking enforcement, fleet maintenance, and energy related services to District of Columbia (District) residents, visitors, and businesses to ensure safe, clean, and aesthetic neighborhoods and public spaces.

FMA supports municipal operations by procuring, fueling, and maintaining thousands of District government vehicles, from sedans and trucks to heavy equipment. In addition, the FMA Office of the Administrator is responsible for management oversight, establishing policies and procedures, and fleet support services for vehicles used by agencies under the authority of the Mayor of the District of Columbia. The FMA fiscal year (FY) 2006 approved budget of $17.9 million represented 15 percent of the DPW total budget of $115.5 million and is a 27-percent increase over the FY 2005 approved budget of $14 million. FMA's FY 2007 proposed budget is $23.7 million.

Fleet Management Information System. FMA uses a fleet management information system (FASTER) that tracks the fleet management process in real time and facilitates the collection of data when and where activity takes place. The system contains asset management, work-order process, fuel management, parts management, system management, and reporting modules. This audit focused on the work-order process module.

According to FASTER, the acquisition cost of approximately 3,100 vehicles in the District fleet as of September 31, 2006, was about $90.5 million. In addition, FMA provides fuel and lubricants for an additional 3,000 vehicles assigned to the Metropolitan Police Department, Fire and Emergency Medical Services, District of Columbia Public Schools, and the Water and Sewer Authority.

FMA Activities. FMA's four main activities are Fleet Consumables, Scheduled Fleet Maintenance (Preventive Maintenance), Unscheduled Fleet Maintenance (Repair), and Vehicle and Equipment Acquisition (Vehicle Acquisition).

<u>Fleet Consumables</u>. Fleet Consumables provides fuel, lubricant, parts, and services for District fleet users. The FY 2006 approved budget was $8.9 million for fuel and $0.4 million for parts.

<u>Scheduled Fleet Maintenance.</u> Scheduled Fleet Maintenance provides preventive maintenance services to District fleet users and had a FY 2006 approved budget of $5.3 million.

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Unscheduled Fleet Maintenance. Unscheduled Fleet Maintenance provides requested repair services to District fleet users. The FY 2006 approved budget was $1.7 million.

Vehicle and Equipment Acquisition. The Vehicle and Equipment Acquisition activity provides new and replacement vehicles and equipment to designated District agencies. The department also includes a motor pool to provide temporary, short-term vehicle use to District employees who do not have regular access to government vehicles. The Vehicle Acquisition activity had a FY 2006 approved budget of $1.6 million.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine whether FMA: (1) complied with fleet management policies and procedures regarding billing rates and the methodology for markups on parts and outsourced services and (2) implemented adequate internal controls to guard against fraud, waste, and abuse.

We examined and analyzed FMA documents such as work-order activity reports, labor-hour reports, budget forecasting documents, and billing spreadsheets for FY 2006 as well as selected Fleet Counselor[4] certification tests and one activity-based costing analysis. We also reviewed selected work-orders and the position descriptions for FMA officials with duties related to managing and billing for maintenance services. In addition, we held discussions with fleet management coordinators at three District agencies.

We conducted interviews and discussions with FMA management officials and other employees to gain an understanding of the policies and procedures and other controls used to maintain and repair District vehicles. We also visited the contractor who designed FASTER and conducted discussions with the Fleet Counselor contractor and another contractor hired to evaluate FMA operations.

We relied on computer-processed data from FASTER to obtain detailed information about the number of labor-hours billed for maintenance and repair; the acquisition cost of vehicles assigned to District agencies under the control of the Mayor; and the acquisition costs, depreciation, maintenance costs, and repair costs for FMA motor pool vehicles. In addition, we relied on computer-processed data from the fuel system and the motor pool management system to show the cost of fuel and rental information for the motor pool vehicles. We did not perform a formal reliability assessment of the FMA computer-processed data because we only used it for background and informational purposes.

We also relied on computer-processed data from the District's System of Accounting and Reporting (SOAR) to identify FMA actual expenditures for FY 2006. We did not perform a

[4] Fleet certification software is discussed in the audit finding.

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formal reliability assessment of these data because an independent certified public accounting firm assessed the reliability of SOAR data during the FY 2005 and FY 2006 Comprehensive Annual Financial Report (CAFR) audits.

The audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

FINDING AND RECOMMENDATIONS

FINDING: BILLING RATES FOR FLEET SERVICES

SYNOPSIS

FMA officials were in the process of identifying the data needed to support the basis of billing rates for fleet management services. However, they could not adequately support the fully burdened[5] shop labor rate for maintenance services and the markups on parts and other fleet services. In addition, FMA officials did not always comply with policies and procedures related to calculating billing rates for fleet services.

These conditions occurred because FMA officials did not have a system to identify, record, and classify the actual direct and indirect operating costs needed to determine the fully burdened labor rate and the markup on fleet services. As a result, FMA did not recover at least $1 million in operating costs for FY 2006 and has no assurance that the agency can recover its operating costs for FY 2007 and beyond. In addition, FMA officials could not accurately allocate the cost of providing fleet services to District agencies without properly identifying, recording, and classifying actual direct and indirect operating costs.

DISCUSSION

Beginning in FY 2006, the Office of the City Administrator, the Office of the Chief Financial Officer, the Office of Property Management, the Office of the Chief Technology Officer, and the DPW executed a city-wide fixed cost memorandum of understanding and included fleet services in the process.[6] Estimates are based on prior year actual spending and include a 3-year average, market rates, and inflation rates set by the Office of Budget and Planning.[7] In developing fleet services cost estimates, FMA makes assumptions based on the number of vehicles assigned to each agency as well as actual levels of service and fuel consumption. DPW, as the selling agency, manages and administers the fleet services costs and is authorized to receive 100 percent of the estimated costs at the beginning of the fiscal year.[8]

The DPW Chief Financial Officer (CFO) receives the fleet services cost estimate as intra-District revenue, establishes intra-District budget authority, and spends against that authority to

[5] A fully burdened shop rate includes all direct and indirect costs, as well as other costs such as uniforms, office supplies, training costs, etc. that are not recaptured through markups or other charges.
[6] Memorandum of Understanding for City-Wide Fixed Costs (Intra-District Funding) for FY 2006, 1 (Oct. 1, 2005).
[7] FY 2006 Proposed Budget and Financial Plan, Fixed Cost Study 3-10, *available at* http://www.cfo.dc.gov/cfo/frames.asp?doc=/cfo/lib/cfo/budget/2006/pdf/special_studies/ss06_fc.pdf&open=|33210| (last visited June 21, 2007).
[8] DPW CFO officials stated that they take incremental amounts when needed to keep an agency from violating anti-deficiency laws.

FINDING AND RECOMMENDATIONS

provide the service.[9] The memorandum of understanding requires the DPW[10] to establish an agency internal service fund to manage the intra-District funds. According to D.C. Code § 47-373 (2) (E) (Repl. 2005), an internal service fund is, in part, a fund to account for the financing of services provided to other agencies on a cost-reimbursement basis.[11]

Criteria. Criteria governing management of the District fleet are provided by Mayor's Order 2000-75 and FMA fleet management policies and procedures as discussed below.

Mayor's Order 2000-75, dated May 11, 2000. This Mayor's Order designated DPW as the sole authority to, in part, procure, maintain, and repair non-emergency vehicles and equipment used by agencies under the authority of the Mayor (excluding the Metropolitan Police Department, Department of Corrections, and Fire and Emergency Medical Services).

FMA Fleet Policies and Procedures. FMA issued city-wide fleet management policies and procedures for improving control and accountability over District vehicles. The policies and procedures became effective in February 2004 and were updated in April 2006. As of the date of this report, FMA officials were in the process of again revising the policies and procedures.

The FMA Fleet Policies and Procedures Manual Procedure 5-3, "Billing for Services" requires that:

> [1] Mechanic's rates shall be set uniformly, and shall be calculated based on direct salaries, fringe benefits, District indirect costs, general operating expenses and facility management and carrying costs. The rate shall be charged as a function of [a] existing hourly standards for the particular job, or [b] actual hours required to complete the job as determined by the Maintenance Services Officer.
> [2] Parts and outside services shall be uniformly marked up as a percentage of the cost of the part/service. The full amount, including the markup, shall be directly charged to work-orders.

Procedure 5-3 also requires that "Together, rates charged for services, supplies and materials should be fair, reasonable, and sufficient to cover FMA costs."

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[9] FY 2006 Proposed Budget and Financial Plan, Executive Summary, Financial Plan and Fund Structure, 3-13 http://www.cfo.dc.gov/cfo/frames.asp?doc=/cfo/lib/cfo/budget/2006/pdf/executive_summary/es06_fpafs.pdf&open=|33210| (last visited June 21, 2007).
[10] The wording of the memorandum of understanding is misleading in that establishing an agency internal service fund to manage intra-District funds is a function of the CFO, not DPW.
[11] DPW and FMA officials use the terms "full cost recovery" or "self sufficient."

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Supporting the Basis for Billing Rates. FMA officials were in the process of using the Fleet Counselor certification software to identify and classify the direct and indirect operating costs needed to fully support the basis for billing rates. Fleet Counselor evaluates 20 mission critical areas of public fleet management, identifies areas in need of improvement, creates an implementation plan for making needed improvements, and provides status reporting monthly, quarterly, or annually, depending on priority and funding levels established by FMA for each of the mission critical areas. On evaluating the mission critical areas, Fleet Counselor assigns a passing or failing grade to each area depending upon the number of "yes" and "no" answers to evaluation questions.

The mission critical areas include, in part, goals, staff qualifications, activity-based costing, policies and procedures, preventive maintenance program, and accounting and billing. Under the mission critical area of activity-based costing, Fleet Counselor performs a detailed analysis to determine markups. Activity-based costing is the process of identifying, describing, and assigning the costs of producing services and is used as a basis for full cost recovery. Activity-based costing is also a tool for measuring business performance and identifying opportunities to improve effectiveness and efficiency.

The use of Fleet Counselor is an important step in the right direction; however, FMA's ability to properly determine fully burdened shop labor rates and markups depends upon the accuracy of the evaluations prepared by FMA officials and the accuracy of labor-hours recorded in FASTER.

<u>Evaluations</u>. FMA officials properly prepared Fleet Counselor evaluations[12] in some cases and did not properly prepare evaluations in other cases. For example, officials properly prepared the evaluations for the areas of staff qualifications and activity-based costing. The deficiencies recognized by FMA officials when preparing the evaluations resulted in failing grades and FMA's next step is to formulate an implementation plan for making needed improvements.

For the billing and accounting functions, FMA officials did not properly prepare the evaluation when officials answered "no" to only one question,[13] which resulted in a passing grade. We believe FMA officials should have answered "no" to at least the following questions, which would have resulted in a failing grade:

- "The shop's labor rate(s) is fully burdened and documented."
- "The previous fiscal period's audit report was acceptable."

We believe the response should have been "no" for these two questions because we did not find documentation to support the fully burdened shop labor rates and the last relevant audit

[12] We performed a limited review of select Fleet Counselor evaluations.
[13] The question was "Our customers know what their costs are and how to manage cost."

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appeared to have been performed in 1999.[14] Because the category incorrectly received a passing grade, FMA officials did not use Fleet Counselor to create an implementation plan for making needed billing and accounting improvements. In our exit briefing, FMA management indicated that they answered "yes" to the question regarding the acceptability of the previous fiscal year's audit because the CAFR audit is performed every year.

However, we do not agree that the CAFR audit demonstrated that the shop labor rate is fully burdened and documented because the CAFR does not provide the level of coverage needed to answer the question affirmatively. The CAFR is focused on financial transactions at higher levels within District agencies (e.g., DPW) rather than on FMA-specific operations such as actual operating costs and the number of labor-hours spent working directly on vehicle maintenance and repair. Although Fleet Counselor does not specify the type of audit FMA officials should obtain and review, the manual indicates that FMA officials should use the department's annual audit to identify the labor rate calculation, parts markups, fuel markups, and overhead rate.

Labor-Hours Recorded in FASTER. FMA officials did not properly use FASTER to record actual labor-hours for preventive maintenance and repair services. Actual labor-hours were not captured partly because mechanics were not required to log in and out of FASTER when beginning and ending jobs.[15] In addition, FMA officials did not always record standard hours in FASTER for preventive maintenance services. FMA officials stated that the standard operating procedure is to bill user agencies for preventive maintenance based on flat rates (we use the term "standard hours").

Actual Hours. FMA officials did not accurately record actual hours in FASTER. For example, our limited review of a FASTER report of labor-hours for FY 2006 shows 18,087 of 32,099 maintenance and repair line items (56 percent) with 0 hours. The failure to accurately record actual hours is significant because the amount of time spent working directly on vehicles is a key factor used by Fleet Counselor to determine fully burdened shop labor rates. In addition, actual hours can be reviewed and analyzed by FMA officials and used to establish standard hours for repairs that are performed often. Further, actual hours are data needed for measuring business performance and identifying opportunities to improve effectiveness and efficiency.

Standard Hours. Our review of 3,002 preventive maintenance line items performed in FY 2006 indicates that 1,438 line items appear to be recorded using actual hours instead of standard hours. More importantly, we could not determine the type of hours used for 489 preventive maintenance line items. It appears that most of the 489 line items resulted when FMA did not record standard hours, recorded the wrong standard hours, or did not

[14] FMA officials stated that an audit of billing rates had been performed in 1999 but could not provide a copy of the audit report. An audit of FMA operations performed in 1999 excluded the review of billing rates.
[15] Mechanic direct labor-hours are discussed in detail on p. 15 of this report.

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always use the appropriate vehicle type[16] when setting FASTER to calculate the labor amount. See Table 1 for the actual and standard hours recorded in FASTER for FY 2006.

Table 1. Actual and Standard Hours Recorded in FASTER for FY 2006

	Type of Service			
Type of Hours	**Preventive Maintenance**	**Percentage of Total**	**Repair**	**Percentage of Total**
Standard	992	33	423	1
Actual	1,438	48	25,518	90
Could Not Determine	489	16	1,926	7
Not Tested	83	3	513	2
Total	3,002	100	28,380	100

FMA performs preventive maintenance using four levels of maintenance (Preventive Maintenance level A (PMA); Preventive Maintenance level B (PMB); Preventive Maintenance level C (PMC); and Preventive Maintenance level D (PMD)). FMA policy requires that PMA be performed every 6 months on light- and medium-duty vehicles such as sedans, vans, SUVs, pickups, and trucks, and every 3 months on heavy-duty vehicles. In addition to an oil change, the PMA includes a radiator fill and pressure test; inspections of the differential levels, belts, fuel system, drive shaft, exhaust system, air cleaner, brakes, suspension, lights, signals, tires, transmission, clutch, heater, and windows; a battery test; a body damage assessment; and a complete lubrication.

A PMB should be performed every 12 months for light-and medium-duty vehicles (every 6 months for heavy-duty vehicles) and consists of performing a PMA as well as additional items such as cleaning and adjusting the carburetor and testing the thermostat. The PMC is to be performed every 18 months for light- and medium-duty vehicles (every 9 months for heavy-duty vehicles) and consists of performing a PMA and PMB, as well as additional items such as wheel alignment, complete tune-up, and annual safety inspection. The PMD should be performed every 12 months on heavy equipment such as packers and sweepers. See Table 2 for the hourly rate,[17] standard hours, and labor amount[18] for each type of preventive maintenance by category of vehicle.

[16] FMA officials assign each type of vehicle a code and FASTER applies the appropriate hourly labor rate based on the classification code.
[17] The fully burdened shop labor rates apply to all in-house preventive maintenance and repair services.
[18] Each preventive maintenance work-order total includes the labor amount (standard hours times the hourly rate), parts (cost plus markup), and a $15 miscellaneous fee.

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Table 2. Hourly Rate, Standard Hours, and Labor Amount for Preventive Maintenance									
		PMA		***PMB***		***PMC***		***PMD***	
Vehicle Type	**Hourly Rate**	**Std. Hours**	**Labor Amount**	**Std. Hours**	**Labor Amount**	**Std. Hours**	**Labor Amount**	**Std. Hours**	**Labor Amount**
Light	$55	1.0	$ 55.00	1.5	$82.50	2.5	$137.50	N/A	N/A
Medium	$65	1.5	$ 97.50	2.0	$130.00	2.5	$162.50	N/A	N/A
Heavy	$65	2.0	$130.00	2.5	$162.50	3.0	$195.00	N/A	N/A
Packer	$70	2.0	$140.00	2.5	$175.00	4.0	$280.00	8.0	$560.00
Sweeper	$70	2.0	$140.00	2.5	$175.00	4.0	$280.00	8.0	$560.00

FMA officials use the labor-hours recorded in FASTER to bill for maintenance services. Consequently, data missing from FASTER or inaccurate data included in FASTER could lead user agencies to conclude that they were not properly charged. For example, the amount of labor billed for a PMB performed on natural gas sedans (light duty) ranged from $55 to $110. Based on the 1.5 standard hours shown in Table 2, the amount of labor should have been $82.50. In addition, we noted light-duty vehicles with PMAs showing $65 labor charges rather than $55 labor charges and several sweepers with PMAs showing $130 labor charges instead of $140 labor charges. We did not quantify the missing and inaccurate data in FASTER for all preventive maintenance transactions. However, there is more than reasonable assurance that user agencies were not consistently billed for vehicle preventive maintenance services because of missing data.

Fully Burdened Shop Labor Rates for Maintenance Services. FMA officials could not adequately support the fully burdened shop labor rates of $55, $65, and $70 charged for maintenance services in FY 2006. Fully burdened shop labor rates should cover the direct and indirect operating costs of the maintenance services department. Direct costs include mechanics' time that can be applied as labor charges directly to vehicles or work-orders. Indirect costs are personnel costs that cannot be charged to a vehicle or work-order and include, in part, a percentage of the mechanics' time spent in non-productive work such as training, vacation, holidays, and sick leave; office and supervisory staff salaries and benefits; and other expenses such as uniforms, and office and shop supplies.

FMA management officials stated that they developed billing rates based on: (1) benchmark data; (2) the number of vehicles assigned to each agency (e.g., equipment inventory count) as well as actual levels of service provided; and (3) the FMA FY 2006 proposed service level budget.[19]

Benchmark Data. FMA officials could not provide documentation showing how they used benchmark data to develop fully burdened shop labor rates. FMA contacted seven local commercial vendors in 2005 and determined that hourly rates ranged from $56 to $84 for

[19] Because the budget process occurs 2 years in advance, the process to develop fleet estimates as well as develop, submit, and approve the FY 2006 budget began in September of 2004.

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light- and medium-duty vehicles, $60 to $89 for heavy-duty vehicles, and $66 to $89 for sweepers and packers. Although FMA officials used similar billing rates (see Table 2), officials could not provide documentation showing that the rates were sufficient to cover the operating costs of the maintenance services department.

Equipment Inventory Count. The equipment inventory count method of developing shop billing rates appeared to be a sufficient budget forecasting tool for FY 2006 but was not adequate for developing fully burdened shop labor rates. For example, the documentation did not include mechanics' projected billable hours (or the information needed to determine billable hours), which is needed to calculate labor rates. Using historical costs based on the equipment inventory count method, FMA officials estimated that the total cost of fuel, parts, maintenance services, and vehicle acquisition services would have been $19,090,171 for FY 2006. Of the approximately $19.1 million, $9,649,997 million was estimated for maintenance services.

We attempted to determine the reasonableness of the FMA fully burdened shop labor rates of $55, $65, and $70 by obtaining the additional information needed to calculate the rates. We calculated that a labor rate of $167.90 would have been needed to recover the estimated $9.6 million in maintenance services costs. The $167.90 billing rate is 205.3 percent more than the lowest rate of $55 and 139.9 percent more than the highest rate of $70 established by FMA for FY 2006.

The labor rate is calculated by dividing the cost of maintenance services ($9.6 million) by projected billable hours of 57,475. We calculated projected billable hours by multiplying the number of estimated mechanics (55 per the Schedule A used to formulate FMA's FY 2006 budget) by the number of estimated hours spent working directly on vehicles (1,045 based on initial activity-based costing performed by FMA officials using Fleet Counselor). As shown in Table 2, FMA established billing rates per vehicle type. However, we could not make that calculation because Schedule A did not identify mechanics by shop.[20]

FY 2006 Proposed Service Level Budget. The FY 2006 proposed service level budget appeared to be a sufficient budget forecasting tool but was not adequate for developing fully burdened shop labor rates by vehicle type. For example, the documentation did not include mechanics' projected billable hours but contained enough information for FMA officials to determine projected billable hours. However, FMA could not provide documentation showing that officials calculated projected billable hours and used them to calculate the $55, $65, and $70 billing rates established for FY 2006. Using historical costs based on the proposed service level budget method, FMA officials estimated that the total cost of fuel, parts, maintenance

[20] FMA assigns mechanics to one of several shops, including, in part, light duty, medium/heavy duty, and sweeper/packer shops. The light-duty shop covers cars, light trucks, and vans. The types of vehicles covered by the other two shops are self explanatory.

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services, and vehicle acquisition services would have been about $17.9 million for FY 2006. Of that amount, about $6.3 million was estimated for maintenance services.

We attempted to determine the reasonableness of the FMA fully burdened shop labor rates of $55, $65, and $70 by using the same process as described above. We calculated that a labor rate of $110.23 would have been needed to recover the estimated $6.3 million in maintenance services costs. As previously discussed, FMA established billing rates per vehicle type; however, we could not make that calculation because Schedule A did not identify mechanics by shop. The $110.23 rate is 100 percent more than the lowest rate of $55 and 57 percent more than the highest rate of $70 established by FMA for FY 2006.

Markups. FMA officials could not adequately support the markups on parts and other fleet services provided by the vehicle acquisition department. According to Fleet Counselor, it is more accurate to require cost centers that support the primary activities of maintenance and repair to be burdened and carry their own cost of operating than to markup the shop labor rate to cover the costs as overhead. In the case of FMA, the parts department supports the maintenance services department.

<u>Parts</u>. FMA officials could not adequately support the 30-percent markup on parts valued at $2,301,688[21] in FY 2006. FMA officials stated that they used the FY 2005 markup of 25 percent as the baseline, reviewed the personnel costs associated with the parts department, reviewed the cost of parts, and decided that a 5-percent increase was reasonable. However, officials could not provide documentation supporting how the baseline of 25 percent was developed, the review of parts costs, or the decision that 5 percent was a reasonable increase.

We calculated that FMA recovered $690,506 in FY 2006 using a 30-percent markup and $2.3 million in direct charges to agencies for the cost of parts. The total cost recovery of $3 million was $2.5 million (or 557.8 percent) more than needed to recover the actual operating costs of $448,189. The operating costs do not include the cost of the parts because FMA officials did not input the purchase using a parts department code. Instead, officials coded the parts by the various shops (e.g., tire and welding, light duty, and packer shops) within the Maintenance Services Department. We included the direct charge back to agencies for the cost of parts in this mark-up calculation because we believe the parts department should carry its own cost of operating. In addition, FMA billings show the parts as a separate line item. Table 3 details the parts mark-up calculation.

[21] Because we could not identify the cost of parts from the SOAR data, we calculated the cost by dividing the $2,992,194 FMA billed to user agencies for parts by 1.3 (100 percent + 30 percent markup or a factor of 1.3).

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Table 3. Parts Mark-Up Calculation	
Type of Cost	**FY 2006 Actual Cost per SOAR** ***(unverified)***
Salaries	353,261
Fringe Benefits	82,836
Non-Personnel Costs[22]	12,092
Total Operating Costs	***$448,189***
Direct Charge Back to Agencies for the Cost of Parts	2,301,688
Amount Recovered via the 30-Percent Markup[23]	690,506
Total Cost Recovery	***2,992,194***
Excess Cost Recovery	**$2,544,005**

Other Fleet Services Provided by the Vehicle Acquisition Department. FMA officials could not adequately support the markups established to cover the cost of other fleet services provided by the vehicle acquisition department. For example, officials did not develop a markup for the motor pool and could not adequately support the 25-percent markup on outsourced repairs.

Motor Pool. According to FMA officials, they did not develop a markup to cover the cost of operating the motor pool because the daily rental rate included the cost of fuel, maintenance, and administrative overhead. According to FASTER and the fuel management system, FMA had 73 vehicles[24] available for use by District agencies in FY 2006 and incurred $71,586 and $18,346 in maintenance and fuel costs, respectively. However, FMA billed user agencies $32,913 for the use of motor pool vehicles, which is $57,019 (or 63 percent) less than needed to cover the maintenance and fuel costs.

To properly determine the daily rental rate or to calculate a markup to cover the cost of operating the motor pool, the salary of the official responsible for day-to-day operations should be included in the calculation. In addition, a percentage of the salary of the vehicle acquisition department manager should be allocated to the motor pool. Because FMA officials did not develop a markup to cover the cost of operating the motor pool - and motor pool is a component of the vehicle acquisition department - we included the motor pool in that mark-up calculation (see Table 5).

FMA officials stated that they benchmarked local car rental companies to develop the daily rental rates but could not provide us with supporting documentation. In addition, FMA officials could not tell us how often the daily rental rates changed or when the last change was made. We researched the rental rates of local car rental companies such as Enterprise, Avis, and

[22] Non-personnel costs include, in part, office supplies, travel, uniforms, fuel, and parts.
[23] The $2,301,688 cost of parts multiplied by the 30 percent markup.
[24] Vehicles and pieces of equipment ranged from generators, golf carts, and sedans to dump trucks.

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Budget and found that the daily rates, which do not include fuel, ranged from $51-$123. Other than for sport utility vehicles, FMA daily rental rates were $12 to $57 or 10 to 69 percent below the rates charged by local rental companies. According to FMA management, they used lower rates to encourage District agencies to use the motor pool. Table 4 provides a comparison of the FMA daily rental rates[25] to selected local car rental companies.

Table 4. Comparison of Daily Rental Rates of FMA to Local Car Rental Companies

Vehicle Type	*FMA Daily Rate*	*Rental Company Daily Rates*	*Difference (Amount)*	*Difference (Percentage)*
Sub Compact & Compact (Focus or similar)	$21	$51-$66	($30-$45)	59-68%
Mid-size (Taurus)	$29	$62-68	($33-$39)	53-57%
Van (Windstar and 7 passenger van or similar)	$26	$50-83	($24-$57)	48-69%
Van (12 passenger)	$111	$123	($12)	10%
Sports Utility Vehicle & Light Truck (Explorer or similar)	$130	$54-79	$51-$76	94-96%
Van (15 passenger)	$139	N/A	N/A	N/A

Outsourced Repair. FMA officials could not support the 25-percent markup on outsourced services, which totaled $946,155[26] in FY 2006. FMA management stated that officials took the FY 2005 markup of 20 percent, reviewed the personnel costs associated with the responsible departments, and decided that a 5-percent increase over the previous year's markup was reasonable. However, officials could not provide documentation supporting how the baseline of 20 percent was developed, the review of department costs, or the decision that 5 percent was a reasonable increase.

We calculated that FMA recovered $236,539 for outsourced repair in FY 2006 using a 25-percent markup. The total cost recovery of $1.9 million was $625,209 (or 50.7 percent) more than needed to cover the vehicle acquisition department actual operating costs of $1.2 million. Table 5 provides the vehicle acquisition mark-up calculation.

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[25] Http://www.dpw.in.dc.gov/fma/cwp/view.asp?a=3&q=481953 (last modified Jan. 30, 2006) (last visited Sept. 28, 2006).

[26] Because we could not identify the cost of outsourced services from the SOAR data, we calculated the cost by dividing the $1,182,694 FMA billed to user agencies for outsourced services by 1.25 (100 percent + 25 percent markup or a factor of 1.25).

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Table 5. Vehicle Acquisition Mark-Up Calculation	
Type of Cost	**FY 2006 Actual Costs per SOAR** *(unverified)*
Salaries	325,693
Fringe Benefits	58,834
Non-Personnel (Excluding Automotive)	71,372
Non-Personnel (Automotive)	740,255
Non-Personnel (Maintenance and Repair)	35,929
Total Operating Costs	***1,232,083***
Amount Recovered via Leasing Markup[27]	207,110
Amount Recovered via Outsourcing Markup[28]	236,539
Direct Charge Back to Agencies for the Cost of the Motor Pool	32,913
Direct Charge Back to Agencies for the Cost of Vehicle Leases	1,380,731
Total Cost Recovery	***1,857,293***
Excess Cost Recovery	**$625,210**

Recovery of FMA Operating Costs for FY 2006. Based on the maintenance services operating costs of $8.9 million and the amount billed to user agencies of $4.3 million, it appears that the fully burdened labor rates established by FMA were not sufficient to recover FY 2006 operating costs of $4.6 million. Because the other departments recovered more than needed, the net amount not recovered is at least $1 million (total FMA operating costs of $21.9 million less the amount billed to user agencies of $20.9 million). See Table 6 for the FY 2006 operating costs and associated cost recovery.

Table 6. FMA Operating Costs and Cost Recovery			
Cost Center	**Cost per SOAR** *(unverified)*	**Amount Recovered per FMA Billings** *(unverified)*	**Difference**
Maintenance Services	$8,904,430	$4,269,217	($4,635,213)
Parts Department	448,189	2,992,194	2,544,005
Fuel Department	11,301,008	11,760,519	459,511
Vehicle Acquisition Department	1,232,083	1,857,292	625,209
Total	**$21,885,710**	**$20,879,222**	**($1,006,488)**

[27] Because we could not identify the cost of leasing vehicles from the SOAR data, we calculated the cost by dividing the $1,587,840 billed to user agencies by 1.15.

[28] We excluded the direct charge back to agencies for the cost of outsourcing repairs because it should be recovered by the maintenance services department. The markup recovery is included here because the employee who monitors the outsourcing contracts works in the vehicle acquisition department.

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We attempted to obtain from SOAR the FMA FY 2006 actual operating costs at the level needed to allocate operating costs to the appropriate cost centers and calculate the fully burdened shop labor rate and markups sufficient to recover FMA operating costs. However, as with the proposed service-level budget historical costs, operating costs related to the FMA Office of Administrator and other support functions were not readily identifiable. In addition, no way exists for the system to distinguish between the shop managers' labor costs (indirect costs) and the mechanics' labor costs (mostly direct costs).

More importantly, FMA officials could not support the amount of time mechanics spent working directly on vehicles in FY 2006. The lack of support for the number of direct hours is significant because Fleet Counselor uses data from FASTER to determine fully burdened labor rates.

We requested a special report from CCG Systems, Inc.[29] to show the amount of time that mechanics spent working directly on vehicles based on the FASTER internal clock. The report indicated that 66 mechanics recorded 18,001 labor-hours but FMA shop managers manually adjusted the labor-hours worked in FASTER to 42,843 hours. According to FMA officials, the recorded labor-hours were low because most mechanics were not comfortable using a computerized system to log in and out. As a result, the standard operating procedure was for mechanics to write the number of hours worked on a copy of the work-order. According to FMA officials, shop managers adjusted the hours in FASTER based on either the number of hours recorded on the hard copy, FMA standard hours developed for that type of maintenance or repair job, industry on-line standards, or some combination thereof.

Using the FY 2006 billable hours of 42,843, the fully burdened shop labor rate needed to recover the FY 2006 actual maintenance services cost of approximately $8.9 million would be $207.84 per hour. However, the rate would decrease if we could identify and remove costs not associated with the maintenance services department. For example, the cost of parts should be associated with the parts department. In addition, the personnel and non-personnel costs associated with the Office of the Administrator and other support functions should be allocated to each of the cost centers. FMA included these costs in the maintenance services department when developing the proposed service level budget. As a result, we believe the Office of the Administrator and other support function costs are also included in the $8.9 million SOAR amount for maintenance services. FMA needs to be able to identify these costs and allocate them among the FMA cost centers.

Further, the number of billable hours is an important factor in the labor-rate calculation. For example, if mechanics had been able to meet the FMA-established standard of 80,080 billable hours, the fully burdened shop labor rate needed to recover the FY 2006 cost of operating the maintenance services department would have decreased from $207.84 per hour to $111.19 per hour, which is more comparable to the rates charged by local commercial

[29] CCG Systems, Inc. is the contractor that designed and maintains FASTER.

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vendors.[30] The FMA-established standard is comparable to the industry standard according to an article published by the American Public Works Association, which states "a fleet organization is doing very well if on average mechanics can produce 1,500 billable hours out of the 2,080 hours that they are paid."[31] This illustration shows how important it is that FMA accurately record the time spent by mechanics working directly on vehicles as this time represents billable hours and is one of the key components of the fully burdened shop labor rate calculation.

System to Identify, Record, and Classify Actual Operating Costs. We found that FMA was not able to fully identify, record, and classify actual direct and indirect operating costs, which is important if FMA wants to properly use activity-based costing to develop billing rates and markups. For example, other than salaries, we could not identify the estimated operating costs associated with the FMA Office of Administrator. FMA may have included those costs in the maintenance services department proposed service level budget but, for purposes of establishing billing rates and markups, these costs should have been identified and allocated to the various FMA cost centers.

Further, FMA should evaluate operations to determine how to identify and allocate the operating costs of the vehicle acquisition and fuel departments. Although the vehicle acquisition and fuel departments[32] support the maintenance and repair activity, they are primarily in the business of leasing vehicles and providing fuel to user agencies. As a result, FMA could fully burden both departments and require them to carry their own cost of operating. Another option is for FMA to identify the acquisition and fuel costs supporting maintenance and repair activities and allocate them (as overhead costs) to the maintenance services department to be used in the fully burdened shop labor rate calculation. Either method is acceptable as long as it is reasonable, logical, and supported.

Allocating the Cost of Providing Fleet Services to District Agencies. During the course of the audit, we identified potential deficits and surpluses related to the amounts advanced by user agencies to pay for estimated fleet services via the Intra-District funding process. We brought this issue to the attention of DPW CFO officials who indicated that they monitor projected spending at the user agency level as well as the Intra-District fund level to avoid potential anti-deficiency violations. DPW CFO officials indicated that they refunded $1.2 million of advanced Intra-District funds to user agencies at the end of FY 2006.

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[30] According to the FMA Fleet Policies and Procedures Manual Procedure 7-1-5, mechanics should spend 70 percent or 1,456 hours of the 2,080 available hours per year working directly on vehicles. For our calculation of billable hours, we used 55 mechanics instead of the 66 per FASTER because we could not determine the number of part-time employees included in the total of 66. We determined that the 55 mechanics per Schedule A was more representative of the number of mechanics employed by FMA during our audit.

[31] Randy Owen, *Cost understanding and awareness: Key steps in having a cost-competitive fleet management program*, American Public Works Association, *at* http://www.apwa.net/Publications/Reporter/ReporterOnline/index.asp?DISPLAY=ISSUE&ISSUE_DATE=082004&ARTICLE_NUMBER=866 (last visited May 3, 2007).

[32] We excluded the fuel department from our review.

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As a result of monitoring fleet services spending, DPW CFO officials identified potential budget shortfalls for FY 2006 and requested budget modifications increasing the FMA budget from $17.9 million to $21.8 million.[33] According to the reprogramming request, the increase was necessary because of the "greater rates of consumption and higher costs for fuel, spare parts, lubricants, and building maintenance." We believe that requesting additional funds to cover budget shortfalls provides little incentive for agencies to control costs and operate more effectively and efficiently, which is another reason FMA needs a system to properly identify, record, and classify operating costs.

Full Accounting for FMA Operating Costs. We found that even if FMA develops a system to fully identify, record, and classify actual direct and indirect operating costs, officials will not be able to accurately determine the true cost of providing services. For example, FMA also incurs operating costs such as electric, janitorial, telephone, and security as well as the cost to improve and maintain the FMA complex and fueling stations. To identify the true cost of operations and identify ways to improve effectiveness and efficiency, these costs should be included in the rate setting process. However, we excluded $1,611,790[34] of these operating costs from our calculations because these costs are part of the fixed-cost allocation process and FMA management stated that the fixed costs are paid out of the DPW budget rather than the FMA budget. Table 7 lists DPW's fixed costs. We did not attempt to identify the costs to improve and maintain the FMA complex and fueling stations because FMA management stated that these costs are paid out of the DPW facilities operations budget, capital budget, or the operational maintenance budget, depending on the extent of the work.

Table 7. DPW Fixed Costs

Description	***Cost***
Electric	$957,359
Fuel	4,916,523
Janitorial	206,266
Natural Gas	388,439
Occupancy	256,092
Phone	1,601,505
Postage	67,499
Security	2,297,712
Water & Sewer	53,873
Total Fixed Costs[35]	**$10,745,268**

Non-Compliance with Policies and Procedures. FMA officials did not comply with policies and procedures related to calculating billing rates for services because officials changed the

[33] The fleet services costs estimated by FMA for FY 2006 totaled $21.5 million.
[34] DPW fixed costs of $10,745,268 multiplied by 15 percent, which is the ratio of the FMA budget to the DPW budget.
[35] Excludes rent of $409,178 because the District owns the FMA complex and fueling stations.

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way they did business in 2003 but did not include the changes in the policies and procedures published in February 2004. For example, FMA policies and procedures require that labor rates be set uniformly and based, in part, on general operating expenses and facility management costs. However, FMA management stated that in 2003 they began using rates that are based on the type of equipment (see previous coverage of equipment inventory) rather than mechanic hours. According to FMA management, they are in the process of reviewing and modifying the policies and procedures to reflect current practice. We believe that this effort will not be productive until DPW and FMA management determine whether billing rates will be calculated based on operating costs and mechanic hours, type of equipment, or some other method.

Conclusion. Although FMA officials were in the process of identifying the data needed to support the basis for billing rates and markups, officials had not properly developed fully burdened shop labor rates and markups for its various cost centers. We commend FMA for benchmarking shop labor and motor pool rates. However, the rates charged by similar organizations are only one part of the benchmarking process. Benchmarking is the process of identifying organizations with best practices and comparing that data (including costs, rates, markups, and supporting data) to FMA data. The goal is to identify and implement new and improved business practices that will help FMA meet or exceed the benchmarks.

For FMA to fully recover operating costs, officials must have a system to properly identify, record, and classify the actual direct and indirect cost of operations. However, the systems currently used by FMA to compile operating costs are not capable of identifying, recording, and classifying operating costs in this manner. In addition, we were unable to obtain the costs from SOAR at the needed level. Without adequate cost data, FMA cannot assess or identify cost drivers and the corrective actions needed to meet or exceed established benchmarks.

RECOMMENDATIONS

We recommend that the Director, Department of Public Works:

1. Establish a system to identify, record, and classify the actual direct and indirect cost of operations needed to determine the fully burdened shop labor rate and the markups on fleet services.

2. Establish internal controls to obtain reasonable assurance that the data entered into Fleet Counselor are accurate, reliable, timely, and verifiable.

3. Establish internal controls, such as periodic reports from CCG Systems, Inc., to monitor mechanics' compliance with log in and log out requirements.

FINDING AND RECOMMENDATIONS

4. Revise policies and procedures after determining whether billing rates will be calculated based on fully burdened operating costs or type of equipment, and monitor FMA compliance with revised policies and procedures.

5. Review proposed rates and rate changes (when developed using estimates) to determine the:

    a. reasonableness of assumptions and accuracy of calculations for costs, revenues, and rates;

    b. reasonableness of direct and indirect costs;

    c. adequacy of rates to recover full costs of services; and

    d. reasonableness of the fleet services fixed-cost estimate to obtain assurance that the costs are fairly allocated to District agencies.

DPW RESPONSE (RECOMMENDATION 1)

DPW concurred with the recommendation. In its response, DPW stated that FMA will use Fleet Counselor to determine direct and indirect costs of operations. In addition, FMA officials are currently entering facility size data, activity-based costing data, replacement rates, staffing requirements, a vehicle replacement analysis, and rental rates data into Fleet Counselor. The estimated completion date for the corrective action is September 30, 2007.

OIG COMMENT

We consider DPW's actions to be responsive to the recommendation.

DPW RESPONSE (RECOMMENDATION 2)

DPW concurred with the recommendation and stated that FMA established primary and secondary staff to enter and verify data entered into Fleet Counselor. In addition, that data are reviewed and updated weekly in the FMA Work Group. Further, the DPW Internal Audit office will be responsible for validating the data. Once audit officials are satisfied the data are accurate and current, the weekly work group will begin meeting monthly.

OIG COMMENT

DPW's corrective actions are responsive and meet the intent of the recommendation.

FINDING AND RECOMMENDATIONS

DPW RESPONSE (RECOMMENDATION 3)

DPW concurred with the recommendation. In its response, DPW stated that FMA supervisors are reviewing shop technician productivity reports, which are reviewed weekly by the FMA management team to ensure compliance with log in and log out requirements.

OIG COMMENT

We consider DPW's planned actions to be responsive, meeting the intent of the recommendation.

DPW RESPONSE (RECOMMENDATION 4)

DPW concurred with the recommendation and stated that DPW senior management and the DPW Internal Audit office are reviewing the billing rates and operating costs. The estimated completion date of the review is September 30, 2007, at which time FMA will revise the policies and procedures as necessary.

OIG COMMENT

We consider DPW's actions to be responsive to the recommendation.

DPW RESPONSE (RECOMMENDATION 5)

DPW concurred with the recommendation. In its response, DPW stated that an official document certifying the rates must be provided to FMA annually.

OIG COMMENT

Based on DPW's response to Recommendations 2 and 4, we believe the DPW Internal Audit Office will be responsible for certifying the rates. As a result, we believe that the actions taken in response to Recommendations 2 and 4 will satisfy the intent of Recommendation 5.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendations	Description of Benefit	Amount and Type of Benefit	Agency Reported Estimated Completion Date[36]	Status
1	**Internal Controls.** Establishes a system to ensure the actual cost of operations is identified and recorded.	Non-Monetary	9/30/2007	Open
2	**Internal Controls**. Establishes controls to ensure accurate, reliable, timely, and verifiable data.	Non-Monetary	9/10/2007	Closed
3	**Internal Controls.** Establishes a method of ensuring the accuracy of billable hours.	Non-Monetary	9/10/2007	Closed
4	**Internal Controls and Compliance.** Implements policies to ensure that employees use proper and consistent procedures to establish billing rates.	Non-Monetary	9/30/2007	Open
5	**Internal Controls.** Establishes a method of ensuring the reasonableness of proposed, estimated rates.	Non-Monetary	9/10/2007	Closed

[36]This column provides the status of a recommendation as of the report date. For final reports, "**Open**" means management and the OIG are in agreement on the action to be taken, but action is not complete. "**Closed**" means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management's response is used. "**Unresolved**" means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT B: DPW RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF PUBLIC WORKS

Office of the Director

September 7, 2007

Charles J. Willoughby
Inspector General
717 14th Street, N.W.
Washington, D. C. 20005

Dear Mr. Willoughby:

Enclosed is the response to the Office of the Inspector General's (OIG) *Audit of the Department of Public Works Fleet Management Administration's Billing Practices* (OIG No. 06-2-11KT).

Sincerely,

William Otis Howland Jr.

William O. Howland, Jr.
Director

Enclosure

cc: Mr. Daniel M. Tangherlini, City Administrator
Dr. Natwar M. Gandhi, Chief Financial Officer
Mr. Ben Lorigo, Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer
Patricia Robinson, Fleet Administrator

2000 14th Street, N.W., Washington, D.C. 20009 (202) 673-6833

EXHIBIT B: DPW RESPONSE

Audit of the Department of Pubic Works Fleet Management Administration's Billing Practices (OIG No. 06-2-11KT)

1) Establish a system to identify record and classify the actual direct and indirect cost of operations needed to determine the fully burdened shop labor rate and the markups on fleet services.

FMA concurs with the above recommendation. FMA has purchased the Fleet Counselor software program that will determine direct and indirect cost of operations. FMA is currently entering facility size, activity-based costing data, replacement rates, staffing requirements, vehicle replacement analysis and rental rates into the software program. This process should be completed by September 30, 2007.

2) Establish internal controls to obtain reasonable assurance that the data entered into the Fleet Counselor are accurate, reliable, timely and verifiable.

FMA concurs with the above recommendation. FMA has established a primary and secondary staff person to enter and verify data that is entered into the Fleet Counselor software system. The FMA Work Group meets weekly to review and update the data in all categories. The DPW Internal Audit office will be the responsible for validating the data. Once DPW is satisfied that the data is accurate and current, the work group review will be monthly.

3) Establish internal controls, such as periodic reports from CCG Systems, Inc., to monitor mechanics' compliance with log in and log out requirements.

FMA concurs with the above recommendation. FMA supervisors are reviewing their shop's technician productivity reports, and the reports are reviewed weekly by the FMA management team to ensure compliance with log in and log out requirements.

4) Revise policies and procedures after determining whether billing rates will be calculated based on fully burdened operating costs or type of equipments, and monitor FMA compliance with revised policies and procedures.

FMA concurs with the above recommendation. The billing rates are being reviewed by DPW Senior management and the DPW Internal Audit office to determine FMA's operational costs. The Director has requested that the review be completed by September 30, 2007; afterward; policies and procedures will be revised as necessary.

EXHIBIT B: DPW RESPONSE

5) Review proposed rates and rate changes (when developed using estimates) to determine the:

a. Reasonableness of assumptions and accuracy of calculations for costs, revenues and rates;
b. Reasonableness of direct and indirect costs;
c. Adequacy of rates to recover full costs of services; and
d. Reasonableness of the fleet services fixed-cost estimate to obtain assurance that the costs are fairly allocated to District agencies.

FMA concurs with the above recommendation. An official document certifying the rates must be provided to FMA annually.

As mentioned earlier, FMA is using the Fleet Counselor software program to determine direct and indirect cost. FMA is also benchmarking their rates with other local jurisdictions and private repair shops to determine the reasonableness of the cost.

For the Record

Page ii, Conclusions: The $1 million in operating costs for FY 2006 that was not recovered was associated with the Parts and Fuel year-end inventory that was not sold by FMA.