Media Release: Friday, March 28, 2014, 4:30 p.m.

Regional Municipality of Waterloo

Audit Committee

Agenda

Tuesday, April 1, 2014

1:30 p.m. (Time is approximate, following Committee meetings)

Room 218

150 Frederick Street, Kitchener, Ontario

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1. Declarations of Pecuniary Interest under "The Municipal Conflict of Interest Act"

2. Delegations

3. Reports

4. Information/Correspondence

5. Other Business

6. Next Meeting – May 7, 2014 at 5:00 p.m.

7. Adjourn

Report: F-14-039

Region of Waterloo

Finance Department

Financial Services & Development Financing

To: Chair Tom Galloway and Members of the Audit Committee

Date: April 1, 2014 **File Code:** F02-20

Subject: **Four Year Review of Accounts Payable Payments**

Recommendation:

For Information

Summary: Nil

Report:

A common practice used by both private sector companies and public sector institutions is to engage a third party to review accounts payable transactions. The purpose of such a review is to ensure there are no duplicate payments and that vendor credits have been taken by the Region. The Region contracted with its auditor, Deloitte, to review the Region of Waterloo's accounts payable transactions. The review was conducted for the period from November 2008 to December 2012. The review covered 645,000 transactions, totaling over $3.7 billion in spending. In addition, Deloitte requested statements from 500 of our largest vendors for individual review. Deloitte reviewed all transactions electronically and from that list pulled over 1,000 invoices for manual review.

<u>Result of Review</u>

After reviewing 645,000 transactions and 500 vendor statements, 25 errors were found. The industry average for the public sector for this number of transactions would be over 300 errors. The recovery from the $3.7 billion of transactions reviewed was $29,883. According to Deloitte, this strong result reflects the diligence of Regional staff and the quality of the Region's procedures and systems relating to accounts payable.

A successful payment process requires cooperation, dedication and care from all departments. If not for Regional staffs' due diligence, attention to detail, and willingness to cooperate in order to ensure payments are correct, this result would not be possible.

A summary of the findings is provided in the following table:

	# of Transactions	Value
Total Transactions Reviewed	645,534	$3,739,078,912
Total Credits to be Recovered	**25**	**$29,883**
Credits as a % of Transactions/Value	0.0039%	0.0008%
Industry Average for Public Sector	0.05%	

Corporate Strategic Plan:

The review meets the Corporate Strategic Plan objective to ensure regional programs and services are efficient and effective and demonstrate accountability to the public under Strategic Focus Area 5, Service Excellence.

Financial Implications:

The net recovery to the Region (after payment of fees to Deloitte) from completing this review was $22,281.

Other Department Consultations/Concurrence: Nil

Attachments: Nil

Prepared By: Peter Holling, Manager, Financial Services

Approved By: Craig Dyer, Chief Financial Officer

Report: CA-14-001

Region of Waterloo

Office of the Chief Administrator

Internal Audit

To:	Chair Tom Galloway and Members of the Audit Committee
Date:	April 1, 2014 **File Code:** A35-01
Subject:	**2013 Internal Audit Report**

Recommendation :

For information.

Summary:

Nil.

Report:

Background:

A system of internal controls assists management staff in meeting their responsibilities for the efficient and effective operation of an organization. A well managed control function is dependent upon many factors including organizational processes established to ensure that program objectives are met, clearly defined management responsibilities, external audits of financial information and systems, and internal audits of programs, systems, and processes. In order to ensure an effective control function these components must work in a constructive and mutually supportive manner.

Internal Audit is one key element in a system of internal controls that are part of the Region's management practices. Internal Audit provides an independent, objective assurance and consulting activity that, together with management practices and external audits, ensures that programs and services are delivered efficiently, effectively, and in compliance with internal policies and external regulations. Currently, the Internal Audit group consists of two staff, the Manager, Internal Audit and the Internal Audit Specialist.

In 2013, Internal Audit's activities included compliance audits, control consultations, and program reviews. Activities in these three categories are briefly described below. In addition to the summary of work activities for 2013 a work plan for 2014 is contained in this report.

Compliance Reviews:

Two compliance audits were conducted in 2013; a Petty Cash Review and a review of the purchase card policies and procedures were evaluated for compliance with the respective Regional By-laws.

Results of the Petty Cash Review, indicated that compliance with the petty cash policy and other applicable guidelines was excellent. In almost all cases, the "surprise counts" matched what was expected. That is, that the cash on hand + expense vouchers = value of the petty cash fund. Two exceptions of the ten were found at the time of the count, but have since been reconciled to the expected amount and no further investigation is necessary.

In reviewing the custodians' petty cash processes, it was found that all custodians were utilizing accepted methods as is outlined in the petty cash policy and that all appropriate authorizations were shown on the receipts themselves and on the cheque request form submitted to Finance.

The Purchase Card Review (P-card Review) was completed in December 2013 and a memo outlining the results was communicated to CLT at their March 17th meeting.

The results of the audit indicate that compliance with the Finance's P-card policy and guidelines was excellent. No significant issues were noted this year, and thus, no recommendations were put forward. This review has shown marked improvement from 2009 as communication of the correct procedures has been reinforced through the Finance 101 training sessions and the annual Internal Audit reviews.

Control Consultations:

In 2013, Internal Audit conducted an internal control review of the Provincial Offences Court Administration (POA) as well as a Payroll Review.

Internal Audit performed a high-level consulting review of POA's cash handling processes in February 2012 and made a number of recommendations regarding best practices to address risks in the cash handling activities. The management team agreed with our recommendations and implemented the appropriate changes by December 2012.

As a follow-up to the aforementioned review, Internal Audit performed substantive control testing in March 2013 to verify the current state of the key control procedures and to verify that previously recommended changes have been implemented appropriately.

Our control testing did not show any material exceptions with internal policies or with the narrative descriptions of the key processes. Discussions with key personnel regarding the nature and timing of control procedures were also reflected in the testing results. As a result, we do not see any area tested that has significant unmitigated financial risk.

A Payroll Review was also conducted in 2013. The objectives of this review were:

- To assess the adequacy of payroll and human resources segregation of duties in the key payroll processes.
- To identify control gaps and potential areas of risk through examination of payroll and Human Resources records.
- Make recommendations, if necessary, to improve process controls to mitigate financial risk exposure to the Region.

Internal control testing was completed in 2013 and findings and recommendations have been communicated to senior management via an internal memo in March 2014. Management responses are expected to be completed and documented by April 2014.

The review made recommendations to improve the overall oversight of the payroll process by considering the following;

- Reviewing and restricting access to key employee data systems.
- Improving the segregation of duties between HR and Payroll by ensuring that the data input and data review functions are separate processes performed by different personnel, where it is practical to do so. Doing so, helps mitigate the risk of errors and fraud.
- Lastly, a detection control was recommended in the form of an exception report produced by the payroll system identifying key changes to employee master data.

Program Reviews:

Program reviews are fundamental to the annual internal audit plan and are being completed on a regular basis. A complete list of completed and in progress program reviews has been included in Appendix 1 for reference purposes.

Program reviews provide an objective evaluation of the efficiency and effectiveness of the program under review and an assessment as to the identification and management of risk. In this case, risk means the things that could potentially prevent the program from achieving program goals.

The use of external consultants takes place for all program reviews. External consultants provide the expertise in process design and program specific knowledge.

A program review attempts to answer the following questions:

1. Is the program effective? Are appropriate results being achieved? Are there ways to make it more effective?

2. Is the program achieving results in an efficient manner? Are we getting good value for the money invested? Are there ways to make it more efficient?
3. Are the program risks being managed effectively? Is there a process in place to identify risks and are there control systems and processes in place to assist us in mitigating risks in an efficient manner?

In 2013, the Cultural Sites Program Review was completed. A Report outlining the results of the Cultural Sites Program Review, together with high level plans for implementing the recommendations was provided to Audit Committee in June 2013.

The Fleet Services Program Review was also completed in 2013. A Report outlining the results of the Fleet Services Program Review, together with high level plans for implementing the recommendations will be provided to Audit Committee at its April 1, 2014 meeting.

As well, the Transportation Operations Program Review commenced in 2013. Reporting on the Transportation Operations Program should be ready in summer of 2014.

Brief summaries of the 2013 program reviews are provided below.

Cultural Sites – Program Review:

The Region of Waterloo owns and operates three museums dedicated to conserving and showcasing the history and culture of Waterloo Region. The Community Services Division within the Planning, Housing and Community Services Department of the Region is responsible for the operation and maintenance of these community museums (herein referred to as "Cultural Sites"). They are: 1) Waterloo Region Museum (including Doon Heritage Village); 2) Joseph Schneider Haus; and 3) McDougall Cottage.

In 2012, the Internal Auditor, together with the Community Services Division, initiated a comprehensive program review to ensure the services and operations of the Cultural Sites Program (herein referred to as "Program") are managed and delivered effectively and efficiently. A specialist consulting firm, with experience in reviewing museum operations, was retained to help assess good value for resources invested for the Region. A detailed assessment of processes was undertaken in the following distinct areas of the Program: (1) Management and Planning, (2) Collections, (3) Curatorial and Research, (4) Education, Programs and Exhibits, (5) Exhibits / Gallery, (6) Marketing and Promotion, (7) Visitor Experience, (8) Volunteer Utilization, (9) Partnership Development, (10) Facilities and Building Maintenance, (11) Cost Recovery and Revenue Generation, and (12) Staffing.

The results of the review indicated that overall, the services and operations are being managed and delivered effectively and efficiently. The consultants specifically noted that their interviews and surveys showed "that the Cultural Sites are highly valued and well regarded across the Region for the cultural, heritage and educational services they provide. The facilities and exhibits are well managed and contribute to the high quality of life experienced by residents, and convey a positive view of the Region to visitors. The commitment of Cultural Sites staff and volunteers was obvious, not only in their communications to the consultants, but was also evident in the thoughtful approach which had been taken to cultural research, educational services and the development and maintenance of the buildings over time."

However, there are opportunities to increase the efficiency and effectiveness of the Cultural Sites Program services and operations. The areas for improvement are centered on three key themes:

1) Need for better integration of all Cultural Sites: To date, the museums as described above have operated largely as independent entities. There are opportunities to better integrate and operate the museums under a more unified 'Cultural Sites Program' with some common objectives and, where possible, take advantage of the increased efficiency and effectiveness which would come through improved communications and information sharing. The report contains numerous recommendations oriented towards that overall goal, including the establishment of a statement of purpose for the Cultural Sites Program, development of a Strategic Plan, improved systems and procedures, better communication, information and resource sharing among staff at the various museum sites.

2) Need for improved information flow between management and staff: A need for increased communications between management and staff came up frequently in the program review. This was expressed in a variety of forms: clearer expectations and objectives being specified of staff; more frequent communications between management and staff; and an improved annual review process.

3) Opportunity for more interaction with the community: A third major theme emerging from the program review was the opportunity for greater and more meaningful interaction with community groups and other cultural sites throughout the Region. This theme encompasses a range of opportunities from more direct marketing (of the Cultural Sites Program overall) to a more integrated working relationship with other community groups and organizations, including reciprocal marketing. This includes cultural sites operated by lower-tier municipalities and others throughout the Region as well as a variety of community groups and organizations.

In summary, implementation of the program review recommendations will assist the Cultural Sites Program to become more effective and efficient. The delivery of these recommendations will lead to net financial savings and help the Cultural Sites program further grow fully to meet its economic and social role for the Region of Waterloo.

Fleet Services – Program Review:

In 2013, the Internal Auditor, together with the Director, Facilities Management and Fleet Services, initiated a comprehensive program review to ensure the services and operations of the Fleet Services Program (generally referred to as “Corporate Fleet” because it excludes GRT Fleet and herein referred to as the “Program”) are managed and delivered effectively and efficiently. A specialist consulting firm, with experience in reviewing fleet operations, was retained to complete a detailed assessment of the Fleet Program based on industry best practice.

The results of the review indicated that a number of the Program’s current practices are working well. However, there are opportunities in all areas of the Program to better align with best practices and increase efficiency and effectiveness. Comprehensively the consultant’s recommendations represent a shift in focus from the current decentralized mandate of the Fleet Services Program involving a collection of program owned assets to become a fully centralized Fleet Management Program managed as a single corporate fleet. Organizations can typically achieve improved efficiencies and savings in both operating and capital through fleet centralization.

Transportation Operations - Program Review:

Within the Transportation Division at the Region of Waterloo operates the Transportation Operations program (herein referred to as “Transportation Operations”). Transportation Operations is responsible for the operations and maintenance of Regional roads, traffic signals and roadway signs (regulatory, warning and informational traffic signs), to ensure the safe and efficient movement of people and goods. This includes winter control (salting and ploughing), snow removal, road/roadside maintenance (fixing potholes, grass cutting, sweeping, shouldering, ditching, flooding and erosion control, retaining wall and fence repair, tree replacement and removal), catch basin and storm sewer maintenance, and pavement markings. The program review will evaluate staffing, planning and administration of all Transportation Operations services to ensure that they are efficient and effective. The review will identify opportunities for improvement and a strategy for optimizing service delivery and organizational value while making the best use of resources. The review will also assess that the risks associated with the delivery of the program are being managed effectively. Reporting on the Transportation Operations Program Review should be ready in summer of 2014.

Proposed Activities for 2014:

Activities outlined in the Internal Audit work plan for 2014 will include most or all of the following:

- Completion of and reporting on the Transportation Operations Program Review.
- Program review of Grand River Transit – Fleet.

- Assistance with Regional Service Review Initiative.
- Compliance audit of purchase card use.
- Compliance audit of petty cash.
- Control consultation of materials and inventory supply management.
- Overtime and mileage payments amounts review.
- Follow-up review of POA internal controls.
- Follow-up of previous Program Reviews, Compliance Audits and Internal Control Reviews to ensure recommendations are being implemented.

In addition to these items, ad hoc consultation and review assignments will be accommodated as the need arises and as circumstances change.

Corporate Strategic Plan:

Focus Area 5.3: Ensure Regional programs and services are efficient and effective and demonstrate accountability to the public.

Financial Implications:

Nil.

Other Department Consultations/Concurrence:

Nil.

Attachments:

Appendix 1 - List of In Progress and Completed Programs Reviews

Prepared By: David A. Young, Manager, Internal Audit

Approved By: Michael L. Murray, Chief Administrative Officer

Appendix 1 - List of In Progress and Completed Programs Reviews

The following is a list of in progress and completed program reviews along with the corresponding year of completion:

In Progress

- Transportation Operations Program Review – 2014.

Completed

- Fleet Services Program Review – 2013-2014.
- Cultural Sites Program Review – 2013.
- Region of Waterloo International Airport – 2012.
- Rent Supplement – 2012.
- Facilities – Maintenance and Operations 2011.
- Information Technology Services – 2010.
- External Communications – 2010.
- Capital Program Delivery/Design and Construction – 2009.
- Purchasing and Materials Management – 2008.
- Administration of the Immunization of School Pupils Act – 2007.
- Waterloo Region Housing - 2007
- Corporate Health and Safety – 2006.
- Provincial Offences Act Administration – 2006.

Report: CA-14-002/CR-FM-14-001

Region of Waterloo

Office of the Chief Administrator

Internal Audit

Corporate Resources

Facilities Management and Fleet Services

To: Chair Tom Galloway and Members of the Audit Committee

Date: April 1, 2014 **File Code:** A10-20, A35-01

Subject: **Fleet Services - Program Review 2013-2014**

Recommendation:

That the Audit Committee endorse the recommendations and proposed actions of the Fleet Services - Program Review 2013-2014 as described in Report CA-14-002/CR-FM-14-001, dated April 1, 2014.

Summary:

In 2013, the Internal Auditor, together with the Director, Facilities Management and Fleet Services, initiated a comprehensive program review to ensure the services and operations of the Fleet Services Program (generally referred to as “Corporate Fleet” because it excludes GRT Fleet and herein referred to as the “Program”) are managed and delivered effectively and efficiently. A specialist consulting firm, with experience in reviewing fleet operations, was retained to complete a detailed assessment of the Fleet Program based on industry best practice.

The results of the review indicated that a number of the Program’s current practices are working well. In general, the Program has excellent facilities, good maintenance procedures and a robust safety program. Other areas where the Program’s procedures can be considered ‘best practice’ are management commitment to understanding and improving fleet operations, overall good customer satisfaction and involvement in the vehicle specification processes, and regular utilization reviews.

Findings from the review of OMBI (Ontario Municipal Benchmarking Initiative) data suggests that the Region of Waterloo costs compare well to other upper tier and single tier municipalities. For example, one key metric is the Fleet Operating Cost per Vehicle Kilometer (including EMS, Police and Municipal Equipment). The Region of Waterloo ranked second amongst peer municipalities at $0.34 average cost per kilometer for maintenance and fuel, with the municipal average being reported at $0.68 per kilometer.

However, there are opportunities in all areas of the Program to better align with best practices and increase efficiency and effectiveness. Comprehensively the consultant's recommendations represent a shift in focus from the current decentralized mandate of the Fleet Services Program involving a collection of program owned assets to become a fully centralized Fleet Management Program managed as a single corporate fleet.

Centralization of fleet management has been a dominant trend in industry and can be traced to the increasing cost and complexity of fleet management and an increased emphasis on efficiency. Industry experts consider it to be the most effective organizational structure and that it is best administered by a Corporate Services-type organization rather than by one of the larger client groups. Organizations can typically achieve improved efficiencies and savings in both operating and capital costs through fleet centralization.

Details on these recommendations and the implementation plan are included in the main body of this report. Many of the recommendations resulting from this review are focused on increasing efficiency, which should result in a savings of time and money. However, some of the recommendations are oriented towards increasing effectiveness and removing or mitigating risk, and will require an investment of staff time or other resources, as described in this report.

Recognizing the unique relationship with the Waterloo Regional Police Service and the requirements under the Police Services Act, we will work with Police to determine the extent to which these recommendations can be applied to their fleet.

Report:

Purpose of the Program Review

Program reviews are intended to provide an objective assessment of the extent to which a program is achieving its intended results, the proficiency with which resources are administered, and the manner in which associated risks have been managed. In this case, risk means the activities and events that could potentially prevent programs from achieving defined goals. Program reviews support the strategic objective of ensuring that all Regional programs and services are responsive, efficient, effective, and accountable to the public. In 2013, Internal Audit, together with Facilities Management and Fleet Services, determined that a program review would be helpful in determining what improvements, if any, could be made to processes supporting the achievement of the Fleet Services Program objectives. The review was to identify opportunities for improvement and a strategy for optimizing service delivery and organizational value while making the best use of resources. The review was also to assess that the risks associated with the delivery of the program are being managed effectively.

Methodology and Approach of the Program Review

A detailed assessment of processes was undertaken in the following distinct areas which the consultant identified as typically common to any Fleet Management Program: (1) Governance, (2) Acquisition and Disposal, (3) Operations and Utilization Management, (4) Maintenance and Repair, (5) Replacement, (6) Information Management, (7) Customer Relationship Management, and (8) Financial Management.

Several sources of data were drawn upon in the course of this program review. These were:

- Review of relevant municipal policies and documentation.
- Interviews with management and staff.
- Staff focus group sessions. Three focus groups with managers and staff were held: one focus group with Fleet Technicians, one focus group with Fleet Lead Hands, and a third focus group held with Fleet support staff.
- Performance measurement and benchmarking.
- Business process mapping and gap analysis. The other key method used in the program review was to evaluate fleet program by identifying industry best practice and comparing to how the Program performs a function to identify what opportunities exist for improvement in each functional area.
- Risk analysis. The Strengths, Weaknesses, Threats and Opportunities (SWOT) currently being faced by Fleet Services were identified in order to concentrate on risks and potential mitigation strategies.

Overview of Fleet Operations

The Facilities Management and Fleet Services Division is one of several divisions within the Corporate Resources Department. The Division is comprised of four sections, of which the Fleet Services Section is one:

- Fleet Services.
- Project Management.
- Property Management.
- Planning and Performance Management.

Fleet Services provides management and maintenance services for over 900 vehicles and miscellaneous equipment for all Regional departments as well as the Waterloo Regional Police Service, but excludes Grand River Transit. In order of fleet size, these clients are Police, Transportation, Corporate Services, Waste Management, Water Services, Airport, and Emergency Medical Services. The current Fleet asset value (excluding GRT) is approximately $42 million and the average annual replacement budget is $5-7 million. Current operating costs for maintenance and fuel are $6.5-7 million annually.

Findings from the review of OMBI (Ontario Municipal Benchmarking Initiative) data suggest that the Region of Waterloo costs compare well to other upper tier and single tier municipalities. For example, one key metric is the Fleet Operating Cost per Vehicle Kilometer (including EMS, Police and Municipal Vehicles/Equipment). The Region of Waterloo ranked second amongst peer municipalities at $0.34 average cost per kilometer for maintenance and fuel, with the municipal average being reported at $0.68 per kilometer.

The following is an overview of Fleet Services key management and maintenance services available to client program areas:

- Asset management and life cycle planning.
- Vehicle and equipment procurement program, including planning, specifications, and acquisition.
- Data management, benchmarking and reporting.
- Preventative and predictive maintenance planning and programs.
- General and emergency repair services.
- SME (Subject Matter Experts) providing leadership and expertise on all Fleet needs and initiatives including:
    - fleet policies/procedures.
    - fleet rightsizing.
    - sustainability “greening the fleet”.
    - legislative and regulatory requirements/compliance.
    - technological advancement and solutions.
    - contract service management.

The degree of utilization of these services varies considerably by program area, which means that the Region’s vehicles are currently managed as a number of small fleets rather than a single significant asset group. This creates a number of challenges and risks, but most importantly, it creates duplication, inefficiency and unnecessary cost to the organization.

Recommendations

The Program Review consultant developed 37 recommendations for improving the efficiency and effectiveness of the Fleet Services Program. These recommendations are listed in Appendix A and are discussed in detail below. In general, the Internal Auditor and the Director, Facilities Management & Fleet Services agree with the consultant's recommendations. **Unless otherwise noted in the body of this report, all of the recommendations will be included in the detailed implementation plan.**

High Level Recommendation and Focus Areas

Comprehensively the consultant's recommendations represent a shift in focus from the current decentralized mandate of the Fleet Services Program involving a collection of program owned assets to become a fully centralized Fleet Management Program managed as a single corporate fleet (the review did not include GRT Fleet). The consultant identified a number of savings opportunities which are dependent on a clear mandate for centralized Fleet Management of the Region's vehicle assets as a single fleet. The current decentralized approach to managing a number of small fleets for each user program area results in duplication of vehicles and poor utilization of vehicle resources. The lack of clear accountability for the vehicle life cycle also creates an opportunity for less rigorous needs assessment and poor asset decision making. This will allow the Region to better align itself with industry best practices and increase the efficiency and effectiveness of the fleet operation. Recognizing the unique relationship with the Waterloo Regional Police Service and the requirements under the Police Services Act, we will work with Police to determine the extent to which these recommendations can be applied to their fleet.

Based on the scope of work and the interrelationships between the themes and more specific recommendations, the program of work required to make this shift to a centralized Fleet Management Program can be packaged into four main focus areas linked to the recommendations in Appendix A:

1. **Fleet Management Business Model:** The business model must be redefined to support the transition to a fully centralized Fleet Management Program. Fundamentally, the Fleet Program will be responsible and accountable for ensuring that the Region's corporate vehicles meet collaboratively defined program area requirements at the lowest possible life cycle cost to the organization. This will include centralization of fleet management and maintenance functions, service level agreements, financial accountability, as well as frameworks for fleet policy and service improvement. This is consistent with the program review results in Facilities Management and, when completed, will result in a new and consistent business model for the entire Facilities Management and Fleet Services Division
2. **Fleet Management Business Systems:** The current Fleet business systems will be realigned to support the new business model, including improved financial, data and performance management structures, and the improved use of technological solutions to facilitate delivery on the broader responsibilities of the Program.

3. **Fleet Asset Management Program:** Implementation of a comprehensive life-cycle asset management program for the corporate fleet will provide a more structured approach to maintenance and renewal planning, financial planning and execution of program initiatives. Many of the cost savings opportunities as a result of this review will come from the centralized asset management of the Region's vehicle fleet.
4. **Fleet Operations Management:** The day-to-day Fleet processes will be realigned to support the new business model, including implementation of performance standards, productivity improvements and quality assurance programs, benchmarking of services provided (internal/external), compliance to maintenance programs, and staff training.

Focus Area Recommendations, Actions and Implementation

These focus areas balance customer service, asset sustainability, efficiency and cost effectiveness while enhancing the supporting data management and systems. Anticipated benefits and an action plan for how the recommendations will be implemented in the future and/or describing the work that has already been done is provided below for each recommendation and/or focus area. These will form the basis of a more detailed, collaboratively developed implementation plan to be carried out over the next two years.

The timing for each area represents the period in which the actions would be initiated. Immediate (by mid 2014); Short-term (by end of 2014); Medium-Term (by end of 2015); and Longer Term (post 2015).

Much of the work in 2014/15 will be focused on collaboratively redefining the Fleet Management business model, alignment of budget structures, and improving maintenance operational efficiency and effectiveness in support of the new business model. A summary of actions by focus area is provided in Appendix B.

Divisional management resources in collaboration with IT, Finance and HR will create the supporting structures and processes necessary to a successful implementation. These will include implementation planning, project controls, change management and communication.

Focus Area 1: Fleet Business Model

Timing: Initiate 2nd Quarter 2014 (Immediate)
Governance, Customer Relationship Management
Rec. 1,2,3,6,13,30,31,32,35

Based on the findings of the program review, the current Fleet Services business model does not effectively align with best practice organizations that operate in a fully centralized Fleet Management framework. Centralization of fleet management has been a dominant trend in industry over the past 25 years and can be traced to the increasing cost and complexity of fleet management and an increased emphasis on efficiency. Industry experts consider it to be the most effective organizational structure and that it is best administered by a Corporate Services-type organization rather than by one of the larger client groups. The consultant advised that organizations can typically achieve operating and capital savings in the order of 5-10% through fleet centralization. In the case of the Region's Fleet, we expect savings in the range of 15%-20%. Preliminary staff estimates indicate capital and operating savings of up to $200,000 in capital costs and $50,000 in operating costs in 2015/16 through simple measures such as swapping vehicles between program areas, procurement process improvements and enforcing the use of pooled vehicles for low utilization needs. Beyond 2016, anticipated capital savings in the range of $300,000 - $700,000 per year as well as operating savings in the range of $100,000 - $200,000 are expected from right sizing the fleet, having vehicle standards that provide the right vehicle for the job, use of technological solutions, optimization of vehicle utilization and managing total life cycle costing including fleet residuals. Actual cost savings and improved efficiencies will be dependent on Fleet Management program initiatives and program area fleet business requirements.

One of the findings of the review is that fleet operations are partially centralized under the Director of Facilities Management and Fleet Services. The Manager, Fleet Services is responsible for management and maintenance of the corporate fleet and keeping an updated database of all fleet assets and utilization. This role shares responsibility with client groups and purchasing for new or replacement acquisition decisions, however defined budgets for fleet capital and operating are held by the individual client groups. The role of Fleet Services in acquisition, however, is not always accepted by all client groups. Other areas of fleet management best practice, such as policy and procedure, financial management and accountability, life cycle planning and total cost of ownership, sustainability, fleet rationalization and utilization fall outside of the current Program mandate, with little involvement from Fleet Services.

- Recommendation 1 proposes to fully centralize all fleet management and maintenance functions for the corporate fleet (the review excluded GRT Fleet).
- Recommendation 3 proposes that Fleet Services create a detailed fleet policy framework placing a priority on policies that will result in standardization and savings.
- Recommendation 13 proposes to develop and implement a charge-back model for vehicle ownership to centralize control over replacement, establishing the optimal cycles and standardized policies. As well, this recommendation aligns financial management, decision-making and accountability.

Program Management Comment: The new Fleet Management business model will reflect the consultant's recommendations and will be developed in collaboration with the client program areas to ensure that their operational needs are met. The model will be endorsed by the Corporate Leadership Team prior to implementation. The degree to which this model and the resulting savings opportunities can be applied to the Waterloo Regional Police Service fleet, will also be evaluated in collaboration with Police staff.

Another finding is that at the Division level, Fleet is grouped together with Facilities Management and is not a stand-alone organization receiving the visibility that it should have.

- Recommendation 6 proposes that Management monitor when additional fleet responsibilities warrant a distinct Division. This would optimize the programs organizational and governance structure and best align accountability.

A related finding is that The Grand River Transit (GRT) runs an independent fleet program and maintenance facilities. Although GRT Fleet was not included in the scope of this review, the current structure is potentially inconsistent with the overall recommendation to centralize fleet management functions and should be reviewed.

- Recommendation 2 proposes that the Region conduct a review of GRT fleet operations to identify potential for efficiencies. This review would evaluate the advantages and disadvantages of combining Corporate Fleet and GRT Fleet.

Program Management Comment: The Region's overall organizational structure is being evaluated in 2014. The question of whether the Fleet Program should be a separate Division at this time as well as the relationship to GRT Fleet could be considered as part of that larger evaluation.

From a Customer Service perspective, one of the findings is that there is a lack of formal service level agreements (SLA's) between Fleet Services and their primary clients.

- Recommendation 30 proposes that Fleet Services create SLA's with customers detailing the division of responsibilities between users and Fleet Services, pricing and service levels. The benefits of this recommendation are that it will form the basis of a collaborative arrangement between Fleet Services and user departments, and insure user department operation needs are effectively recognized and addressed. Also, it will clearly define roles, hold Fleet Services accountable and align decision-making consistent with the new fleet management model.
- Recommendation 36 proposes that Fleet Services develop a charge-back model which is transparent and clear to Departments. This will ensure user department buy-in and ensure that funds are available when needed.

Another finding of the program review is that customer service surveys with user departments are not conducted annually on an “active” basis.

- Recommendation 31 proposes that Fleet Services conduct annual surveys to monitor customer satisfaction with Fleet Services. Fleet Services should track results and trends and address concerns. This will improve Fleet Services and user department relations and identify joint areas of savings.
- Recommendation 32 proposes that Fleet Services develop a fleet reporting matrix that details what information needs to go to which organization or to senior management with what frequency. This will allow for customers and senior management to receive regular and useable fleet reports. It will also improve Fleet Services and user department relations and identify joint areas of savings.

Focus Areas 2: Fleet Business Systems

Timing: Initiate 3rd Quarter 2014 (Short Term)
Financial Management, Information Management
Rec. 26,27,28,29,33,34,36

Fleet business systems (data management, polices/procedures, processes and reporting structures, etc.) are the critical tools which will allow the Fleet Program to deliver on the commitments associated with the evolution from decentralized Fleet Services to centralized Fleet Management. The increased responsibility and accountability associated with this broader mandate will require changes and improvements to the current systems. The primary focus items in regards to business systems relate to the use of KPI’s (Key Performance Indicators) and the financial framework required to effectively measure and manage fleet performance and efficiency. The following recommendations provide opportunities for improvements in information and financial management.

Fleet Services has a FMIS (Fleet Management Information System-EMDECS) that was implemented in 1999 and has gone through several enhancements and upgrades since then. This system is also used by GRT Fleet. The program review did not include a comprehensive review of the FMIS system; however, the consultant did provide feedback and recommendations based on their high level analysis. The overall observation of the consultant is that EMDECS is not function rich and does not support the efficiency and effectiveness which a commercially available, off the shelf, FMIS can enable through automated work flows, customizable dashboards/reports, entire vehicle lifecycle management, etc.

- Recommendation 27 proposes that dashboard, reporting and self-serve query features are identified as requirements for any future FMIS improvement or replacement.
- Recommendation 28 proposes that Fleet Services ensures that the next FMIS is feature and function rich to accommodate vehicle lifecycle management from

start to finish, that it enables automated workflows, and it serves as an information repository (i.e. for vehicle specifications, PM checklists, recalls and bulletins, etc.).

Program Management Comment: The current FMIS system has all of the functionality currently required to deliver on the recommendations in this report, however, the replacement of this system is being considered as part of the larger organization-wide Asset Management project, and the purchase of a single, comprehensive asset management system. The consultant's recommendations will be included in the evaluation of any replacement system.

In addition to the recommendations above, the consultant also noted that all fleet clients within the organization should be on one FMIS environment to reduce IT costs. This will be taken into consideration as well in relation to the Corporate Fleet and GRT Fleet database environments.

- Recommendation 29 proposes that Fleet Services consider alternative methods of odometer or hours entry in the FMIS (such as Telematics), to ensure sound data for decision making on PM forecast, fleet related key performance indicators (KPI's), decision to replace, CVOR compliance, etc.

Program Management Comment: Fleet Services is currently conducting a broad-based pilot of telematics equipment on 52 vehicles in both the corporate and GRT fleet. Initial results have identified operational trends and opportunities for improvement, which could not be realized without the use of technology. The new business model will be critical to ensuring consistent, organization-wide application of this technology where warranted.

Another finding of the program review is that there is an opportunity to better use the financial and operational data in the management of the Fleet Services Program.

- Recommendation 26 proposes to develop KPI's, determine targets, and using the FMIS, Crystal reporting, and IT Services produce KPI reports for review with management, finance, etc. KPI's will allow monitoring of the results for the existing program and any changes that may result from this study. It will also allow for benchmarking against other organizations.
- Recommendation 37 proposes that Fleet Services proactively develop targets for cost reduction in order to support efficiency measures.

Program Management Comment: Fleet Services has long been recognized as a leader in data collection and evidence-based analysis, but has not organized this information into a formal KPI structure with clear operational targets in part because of the wide service variation between client program areas. This strong foundation will make the implementation of these recommendations straightforward and should allow for solid baseline and historical analysis as well as forward-looking projections.

From a financial management perspective, the consultant found that the capital and operating budgets are managed independently for each program area. Fleet Services in collaboration with corporate Finance and each separate client group, prepares a 10 year capital forecast and annual procurement requirement. Annual operating budgets are established by each client program area and Finance in consultation with Fleet Services. This approach leads to inconsistencies across the fleet, erodes accountability and provides limited opportunity to take advantage of fleet-wide efficiencies.

Fleet financial management best practice strives to strike a balance between reducing costs without impacting the productivity of the fleet user groups. In order to improve the financial management of the Fleet Program, the following three recommendations are proposed:

- Recommendation 33 proposes to centralize funding within Fleet Services and charge an ownership fee to the Departments funded as either a user pay reserve fund or through an annual capital approval process.
- Recommendation 34 proposes that Fleet Services capture all fleet related costs in the FMIS for charge-back model calculations (as well as TCO analysis) and on the type of vehicle to replace existing holdings with. Improvements in cost capturing will permit a better understanding of fleet costs and highlight savings.
- Recommendation 35 proposes that Fleet Services use a combination of management fees and mark-up to recover overhead and administrative cost. This will ensure that budget requirements are more predictable and avoid funding shortfalls.

Program Management Comment: Preliminary staff estimates indicate capital and operating savings of up to $200,000 in capital costs and $50,000 in operating costs in 2015/16 through simple measures such as swapping vehicles between program areas, procurement process improvements and enforcing the use of pooled vehicles for low utilization needs. Beyond 2016, anticipated capital savings in the range of $300,000 - $700,000 per year as well as operating savings in the range of $100,000 - $200,000 are expected from right sizing the fleet, having vehicle standards that provide the right vehicle for the job, use of technological solutions, optimization of vehicle utilization and managing total life cycle costing including fleet residuals. Actual cost savings and improved efficiencies will be dependent on Fleet Management program initiatives and program area fleet business requirements.

Fleet will work closely with Finance to develop a charge-back model that aligns with these recommendations and is consistent with the Regions program based budgeting.

Focus Areas 3: Asset Management

Timing: Initiate 1st Quarter 2015 (Medium Term)
Acquisition and Disposal, Utilization Management, Replacement
Rec. 7,8,9,10,11,12,21,22,23,24,25

The program review included an evaluation of process and practices related to asset management activities. Based on the findings, the processes are fairly consistent, but the level of inclusion of Fleet Services and compliance to standard practices and corporate objectives varies by user group. The following recommendations provide opportunities for improvement in acquisition and disposal, utilization management and replacement.

Because of the nature of the review, many of the recommendations are generic rather than specific to the Region's Fleet and would require significant research and evaluation for Regional staff to complete independently. In the interests of ensuring that the cost savings associated with these recommendations are identified and realized as quickly as possible, staff recommend that the same external consultant be retained to conduct a more detailed review and provide specific and detailed recommendations regarding Fleet Asset Management best practices including fleet rationalization, procurement planning, utilization management, PM programs and as part of the business model-supporting policies and procedures. Fleet management will work in collaboration with the client program areas to ensure these recommendations are consistent with the new business model and implement approved recommendations.

A finding of the program review was that the roles of Fleet Services, the user and Procurement in the acquisition process is not clearly defined and understood.

- Recommendation 8 proposes that fleet management acquisition, peak period and remarketing functions be centralized to a much greater extent. As well, remarketing funds should return to the fleet replacement budgets. Returning remarketing funds to Fleet creates a financial incentive to maximize residual values through a carefully managed lifecycle approach.
- Recommendation 9 proposes that Fleet Services develop a procedural document that clarifies roles and responsibilities throughout the acquisition process, with Fleet acting as vehicle SME (Subject Matter Expert), program area providing input on operational requirements and Procurement ensuring all contracting regulations are followed.

Another finding of the program review is that Fleet Services does not have a formal vehicle selector with standard offers in place with manufacturers. This means that there is no automatic default across the fleet either in terms of functionality or manufacturer when purchasing a commonly purchased vehicle such as a basic sedan or pick-up.

- Recommendation 7 proposes that Fleet Services develop a vehicle selector and accompanying standing offers with manufacturers to standardize and streamline the acquisition of basic vehicles such as sedans and pickups. This will save significant time in the acquisition process and will result in dollar savings due to bulk purchasing of standardized options.

Program Management Comment: Fleet Services currently recommends an informal vehicle standard for most common purchases, but adherence to this standard is at the discretion of the program area and is inconsistently applied. Development of a specific vehicle selector tool will form part of the consulting assignment described above in order to fast-track this savings opportunity.

The goal of utilization management is to optimize or “right-size” the number of vehicles in a fleet such that there are no more vehicles than required. This keeps fleet-related costs as low as possible without sacrificing productivity.

One of the findings of the program review is that there are no established utilization targets that are in line with the function and operating environment of the specific units.

- Recommendation 11 proposes that Fleet Services develop minimum utilization thresholds in terms of age and kilometers or hours of use and publish these so they can be followed by user departments. These targets often relate to a cost/benefit analysis of the point that it is cheaper to rent a vehicle for occasional use rather than own a lightly-used asset. The benefits of this recommendation are that user departments will use standard lifecycles that will make budget cycles easier to predict and achieve savings by ensuring that vehicles are remarketed at the optimal point in their lifecycle.
- Recommendation 12 proposes to conduct annual reviews to determine the actual need for low utilization vehicles. This will facilitate the ability to rotate low utilization vehicles as required and will result in a reduction to fleet size which will reduce both capital and operating cost expenditures on fleet.

It is also recommended best practice from a utilization management perspective for organizations to have a centralized pool of vehicles to meet peak period requirements, act as loaners for a vehicle in for maintenance and repair, and for the occasional use by employees who do not have a vehicle assigned to them. The existence of a well-managed centralized pool reduces the need for user groups to keep spare vehicles for their sole use which unnecessarily increases the fleet size and cost. Currently, there are 8-10 vehicles in the centralized pool managed by the Fleet Services. In addition, several user client groups keep their own spares in case of a vehicle breakdown.

- Recommendation 10 proposes to augment the centralized pool and eliminate the spare vehicles from the individual user departments. This will result in a reduction to fleet size which will reduce both capital and operating cost expenditures on fleet.

Program Management Comment: It is expected that this pool can be established primarily by repurposing existing low utilization vehicles rather than purchasing new vehicles.

Replacement planning is the projection of future replacement dates and costs for each vehicle and piece of equipment in the fleet. Its purpose is to identify long-term spending needs and associated budgetary requirements. Replacement decision making, on the other hand, is the process of deciding when to replace individual vehicles and pieces of equipment.

One of the findings of the program review is that Fleet Services and user client groups often do not agree on vehicle requirements and replacement timelines. Ultimately, the decision on whether a replacement vehicle is needed rests with the user and there is no formal process in place to identify, document and evaluate need. As a result, program areas have traditionally been able to obtain vehicles without benefit of a more in depth review. With respect to replacement planning and acquisition, several recommendations were made:

- Recommendation 21 proposes that Fleet Services improve the replacement process by managing customer expectations through formal replacement policies and decision trees. This will result in a reduction to fleet size which will reduce both capital and operating cost expenditures on fleet.
- Recommendation 22 proposes that Fleet Services ensure formal substantiation is provided on the need to replace vehicles and on the type of vehicle to replace existing holdings with. This will result in a reduction to fleet size which will reduce both capital and operating cost expenditures on fleet.
- Recommendation 23 proposes that Fleet Services consider conducting a right-sizing study to ensure needs are efficiently covered. This may result in a reduction to fleet size which will reduce both capital and operating cost expenditures on fleet.
- Recommendation 24 proposes that Fleet Services establish vehicle lifecycles for all classes of vehicles that are consistent across user departments and that take total cost of ownership into account. This will result in savings due to remarketing of vehicles at the optimal point in the lifecycle.
- Recommendation 25 proposes that Fleet Services create more stringent criteria to justify the retention of a replaced vehicle as a spare. This will result in a reduction to fleet size which will reduce both capital and operating cost expenditures on fleet.

Focus Area 4: Operations Management

Timing: Initiate 3rd Quarter 2014 (Short Term)
Operations Management, Maintenance and Repair
Rec. 4,5,14,15,16,17,18,19,20

Operations management consists of a wide variety of day-to-day fleet and maintenance related functions. Based on the findings, the existing fleet policies and procedures are not effectively supporting the needs of the Program. The current preventative maintenance program aligns with best practice organizations, however lacks compliance to service schedules. Training, contract services, shop productivity, parts service and quality assurance programs all need to be reviewed to further align with best practices. The following recommendations provide opportunities for improvement in operations management and maintenance and repair.

Fleet Services has a series of fleet-related policies in writing. However these documented policies are not consistently adhered to by fleet users, as they lack authority and have not been passed by Council.

- Recommendation 4 proposes that Fleet Services draft and approve a procedures manual and promulgate Region-wide. This will ensure greater standardization and adherence to policy which in turn decreases liability exposures, saves time and improves results.
- Recommendation 14 proposes that a policy be created on transportation alternatives. This will result in a reduction to fleet size with will reduce both capital and operation expenditures on fleet.

One of the findings of the program review is that there are opportunities to improve the staff training within the Fleet Services Program. Staff training has been extensive over the years, addressing immediate needs related to core services and management initiatives. However, the Program lacks a structured approach to training planning.

- Recommendation 5 & 19 proposes to develop a comprehensive training program for staff members to ensure a minimum level of technical and customer service skills.
- Additionally, Fleet Services should consider membership in professional organizations and specific training in fleet management to ensure staff at all levels is better equipped for their responsibilities.

Another finding is that the automotive parts are supplied out of ‘General Stores’ which falls under Finance Department. Fleet Services represents approximately 55-60% of their transactions. General Stores are staffed with stock keepers who are not automotive parts specialists and require support from the Fleet Technicians. As a result, Fleet Technicians can often spend a lot of time on parts issues rather than on activities more consistent with their skill sets.

- Recommendation 20 proposes to increase automotive parts expertise within the Materials Management section of Procurement and Supply Services, to bring them to the level of trained automotive specialists and/or explore opportunities to outsource to organizations such as a NAPA. The primary benefits of this recommendation are improved technician productivity and reduced downtime of client vehicles and equipment.

The preventative maintenance (PM) program appropriately incorporates multiple echelons of progressive services and intervals generally follow manufacturer recommendations. Checklists are used to guide Fleet Technicians in completing thorough inspections. Preventative maintenance services are scheduled by running a forecast report in the fleet system each week. The Fleet Coordinator schedules services with customers each Friday for the following week. Daily updates are also run and follow-up calls to customers made as required.

One finding is that compliance with PM schedules (defined as services completed on or before their original scheduled date) is reportedly 72-percent. The industry standard is 95-percent. Achieving this standard is a shared responsibility between fleet users and Fleet Services and will require close communication and cooperation. A concerted focus on meeting this metric will ultimately improve fleet availability, lower repair costs, and enhance fleet safety.

- Recommendation 17 proposes that a concerted effort should be made in partnership with customers to increase compliance with PM to 95-percent. Preventative maintenance prolongs vehicle life and is a proven investment in order to avoid unnecessary and expensive repairs. PM compliance is key to realizing the cost savings inherent in a good PM program.

Program Management Comment: This is an excellent example of where meaningful key performance indicators can be used to drive behaviour. One of the first KPI's that Fleet will begin tracking for each program area is the level of PM compliance. Using that compliance data, Fleet will work with program areas to identify and resolve barriers to meet the target of 95% PM compliance to schedule.

Another finding with respect to maintenance and repair is that Fleet Services does not have a formal quality assurance (QA) program in place to review technician work and monitor rate of repeated work required.

- Recommendation 18 proposes that Fleet Services develop a formal quality assurance program. QA ensures customers are satisfied and maintenance operations are effective. A strong QA program will generate less repeat work resulting in less redundancy and therefore lower costs.

Program Management Comment: The existing informal quality assurance program will be expanded and enhanced to a formal QA program to ensure quality of work meets acceptable standards and is completed in accordance with estimated time and costs.

Outsourcing is a normal practice for municipal fleet organization and most municipalities outsource from 10 to 20-percent of work on a value basis. Fleet Services has outsourced in excess of 50 percent at times. Management reported that a number of long-term absences of shop technicians, specialized vendor skills and lower costs were the primary reasons for the degree of outsourcing. Under a normal model, outsourcing focuses on specialized repairs and minimizing downtime during periods of peak workload. Routine repairs and services are normally completed in-house. While a detailed review of the causes, costs and benefits, and pros and cons of outsourcing practices was beyond the scope of this review, the current practices are far enough out of the norm that a detailed investigation may be warranted.

- Recommendation 15 proposes that Fleet Services conduct a thorough outsourcing study and consider shifting some services to the shop where the potential to reduce costs exists. This will increase the utilization of the existing facilities and will improve turnaround time and decrease costs if executed properly.

A related finding of the Consultant is there are opportunities to improve the labour productivity of fleet maintenance staff.

- Recommendation 16 proposes that Fleet Services Management monitor Fleet Technician productive hours and increase to an average of 70% direct labour hours per year. This will improve shop efficiency while lowering costs of vehicle maintenance

Program Management Comment: Each outsourcing decision is evaluated independently to ensure the most cost effective approach based on current productivity levels. Before implementing a comprehensive outsourcing study, performance management practices, KPI's and standards will be implemented to assess and improve the efficiency of internal services. This process will include validation against estimated job times and monitoring of compliance to established standards. Once that is well underway and productivity improvements realized, a comprehensive outsourcing study will provide a more broad-based perspective to assist in establishing targets. Further assessment of industry best practices will be made to establish an appropriate target for the Region's Fleet operation to ensure effective use of resources.

Implementation Benefits

A program review such as this one is focused upon the assessment of efficiency and effectiveness of current operations, as well as any risks that might be entailed in the running of the program or the provision of the service. Any recommendations for change that result from the review, accordingly, are oriented towards improving efficiency and effectiveness as well as reducing or eliminating risks. While some of the benefits will be quantitative and measurable in dollar value terms, many will be qualitative in nature or not necessarily measurable economically.

In this case, the recommendations are broadly focused on transitioning from a decentralized Fleet Services Program to a fully centralized, comprehensively managed Fleet Management Program to achieve efficiencies consistent with industry best practice. The centralization of all Fleet Management and Maintenance services will improve efficiencies and reduce overall Fleet operating and capital costs.The consultant advised that organizations can typically achieve operating and capital savings in the order of 5-10% through fleet centralization. Based on current average costs for operating and capital replacement of the corporate fleet, this generic saving estimate would be in the range of $60,000-$140,000 dollars annually. The primary changes that will result in operating and/or capital cost savings are:

- right sizing the fleet.
- vehicle standards that provide the right vehicle for the job.
- use of technological solutions.
- optimization of vehicle utilization.
- managing total life cycle costing including fleet residuals.

In the medium to longer term, industry experience also shows that a life cycle asset management program can reduce capital expenditures by effectively using maintenance history to determine the need for capital replacement. Actual cost savings and improved efficiencies will be dependant on Fleet Management program initiatives and program area business requirements.

In addition to the expected cost savings, the following benefits will also be achieved:

- Clear financial and operational accountability for vehicle assets.
- Improved service satisfaction for client areas.
- Consistent regulatory compliance and risk management.
- Improved operational productivity.

Reporting

Staff will report back to Council on the various stages of implementing the recommendations from this Program Review through the development of an annual reporting process. Staff will track the various implementation actions and report on the actual costs and benefits. The first report should be anticipated by early 2015.

Corporate Strategic Plan:

The completion of the study was done in keeping with Focus Area 5.3: Ensure Regional programs and services are efficient and effective and demonstrate accountability to the public.

Financial Implications:

The centralization of all Fleet Management and Maintenance services will improve efficiencies and reduce overall Fleet operating and capital costs. The consultant advised that organizations can typically achieve operating and capital savings in the order of 5-10% through fleet centralization. In the case of the Region's Fleet, we expect savings in the range of 15%-20%. Preliminary staff estimates indicate capital and operating savings of up to $200,000 in capital costs and $50,000 in operating costs in 2015/16 through simple measures such as swapping vehicles between program areas, procurement process improvements and enforcing the use of pooled vehicles for low utilization needs. Beyond 2016, anticipated capital savings in the range of $300,000 - $700,000 per year as well as operating savings in the range of $100,000 - $200,000 are expected from right sizing the fleet, having vehicle standards that provide the right vehicle for the job, use of technological solutions, optimization of vehicle utilization and managing total life cycle costing including fleet residuals. Actual cost savings and improved efficiencies will be dependent on Fleet Management program initiatives and program area fleet business requirements.

Similar to other large scale Program Reviews (such as Facilities and ITS), both contracted and redirected resources will be required for a comprehensive and well integrated implementation. It is estimated that $200,000 will be required in 2014/15 to cover the cost of an external consultant to assist in a fleet right sizing review, capital planning and charge back structure and Corporate Fleet policy, as well as internal costs such as support from ITS and HR. Staff recommend that the estimated implementation costs of $200,000 be funded from the Fleet Services vehicle and equipment reserves. The current balance is in excess of $1.0 Million and is sufficient to cover program requirements over the next several years as well as the implementation costs in 2014/15. A recommendation to amend the approved 2014 Capital Program to include the Fleet Services Program Review Project will be presented to Council before work commences on implementation of these recommendations.

Other Department Consultations/Concurrence:

In addition to the staff from Facilities Management & Fleet Services who participated in this program review, staff from Corporate Resources, Chief Administrator's Office, Finance, Transportation and Environmental Services, Human Resources, Police, EMS, GRT were directly involved in this program review through interviews, and review of the recommended actions.

Attachments:

Appendix A: Consultant Recommendations by Fleet Management Function

Appendix B: Planned Implementation Activities Summary by Focus Area

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Gary Sosnoski, Commissioner, Corporate Resources

Appendix A: Consultant Recommendations by Fleet Management Function

Governance

1. Fully centralize all fleet management and maintenance functions.
2. Conduct a review of GRT fleet operations to identify potential for efficiencies.
3. Create a detailed fleet policy framework placing a priority on policies that will result in standardization and savings.
4. Draft and approve a procedures manual and promulgate Region-wide.
5. Develop a comprehensive training program for staff members to ensure a minimum level of technical and customer service skills.
6. Monitor when additional fleet responsibilities warrant a distinct Division.

Acquisition and Disposal

7. Develop a Vehicle Selector Tool and accompanying Standing Offers with Manufacturers to standardize and streamline the acquisition of basic vehicles such as sedans and pick-ups.
8. Centralize fleet management acquisition, peak period and remarketing functions to a much greater extent. Ensure remarketing funds return to the fleet replacement budgets.
9. Develop a procedural document that clarifies roles and responsibilities throughout the acquisition process, with Fleet acting as vehicle SME (Subject Matter Expert), clients providing input on operational requirements and Procurement ensuring all contracting regulations are followed.

Operations and Utilization Management

10. Augment the centralized pool and eliminate the spare vehicles from the individual user departments.
11. Develop minimum utilization thresholds in terms of age and kilometers or hours of use and publish these so they can be followed by user departments.
12. Conduct annual reviews to determine the actual need for low utilization vehicles. Rotate low utilization vehicles throughout the Fleet as required.
13. Develop and implement a charge-back model for vehicle ownership so that user departments have the incentive to return under used vehicles.
14. Create a policy on transportation alternatives.

Maintenance and Repair

15. Conduct a thorough outsourcing study and consider shifting some services to the shop where the potential to reduce costs exists.
16. Monitor Fleet Technician productive hours and increase to an average of 1365 hours per year.
17. A concerted effort should be made in partnership with customers to increase compliance with preventative maintenance (PM) to 95-percent.
18. Develop a formal quality assurance program.

19. Develop an annual training plan for all Fleet Services staff.
20. Increase automotive parts expertise within the Materials Management section of Procurement and Supply Services, to bring them to the level of trained automotive specialists and/or explore opportunities to outsource to organizations such as a NAPA.

Replacement

21. Improve the replacement process by managing customer expectations through formal replacement policies and decision trees.
22. Do not automatically replace vehicles. Instead, ensure formal substantiation is provided on the need to replace vehicles and on the type of vehicle to replace existing holdings with.
23. Conduct a right-sizing study to ensure vehicle/equipment needs are efficiently covered.
24. Establish vehicle lifecycles for all classes of vehicles that are consistent across user departments and that take total cost of ownership into account.
25. Create more stringent criteria to justify the retention of a replaced vehicle as a spare.

Information Management

26. Develop meaningful key performance indicators (KPIs), determine targets, and using the Fleet Management Information System (FMIS), Crystal reporting, and IT Services to produce KPI reports for review with management, Finance, etc.
27. Ensure that all dashboard, reporting and self-serve query features are identified as requirements for any future FMIS improvement or replacement.
28. Ensure that the next FMIS is feature and function rich to accommodate vehicle lifecycle management from start to finish, that it enables automated workflows, and it serves as an information repository (i.e. for vehicle specifications, PM checklists, recalls and bulletins, etc.).
29. Consider alternative methods of odometer or hours entry in the FMIS (eg: Telematics), to ensure sound data for decision making on PM forecast, fleet related key performance indicators (KPI’s), decision to replace, CVOR compliance, etc.

Customer Relationship Management

30. Create SLAs with customers detailing the division of responsibilities between users and Fleet Services, pricing and service levels.
31. Conduct annual surveys to monitor customer satisfaction with Fleet Services. Track results and trends and address concerns.
32. Develop a fleet reporting matrix that details what information needs to go to which organization or to senior management with what frequency.

Financial Management

33. Centralize capital funding within Fleet Services and charge an ownership fee to the Departments funded as either a user pay reserve fund or through an annual capital approval process.
34. Capture all fleet related costs in the FMIS for charge-back model calculations (as well as total cost of ownership (TCO) analysis) and on the type of vehicle to replace existing holdings with.
35. Use a combination of management fees and mark-up to recover overhead and administrative cost.
36. Develop a charge-back model which is transparent and clear to Departments.
37. Proactively develop targets for cost reduction in order to support Fleet Service's efficiency measures.

Appendix B: Planned Implementation Activities Summary by Focus Area

Focus Area 1: Fleet Management Business Model

Governance, Customer Relationship Management
Rec. 1,2,3,6,13,30,31,32,35
Timing: Initiate 2nd Quarter 2014 (Immediate)

Define and adopt, through consultation with client program areas and internal support services, a comprehensive fleet business model:

- Redefine the Fleet Management business model in collaboration with client program areas for CLT endorsement; fully centralize fleet management and maintenance functions and align budget structures to support the model.
- Define roles, responsibilities & accountabilities between Fleet and client program areas.
- Develop Fleet Business Model Policy Framework (Fleet Management Policy).
- Develop service level agreements with client program areas.
- Develop and implement Fleet charge back model.
- Develop and implement a client satisfaction survey – metrics & monitoring.
- Develop and implement a service improvement & accountability framework including SLA's, KPI's, surveys and continuous improvement.
- Develop and implement a change management and communication plan.
- Conduct an Operational review of GRT in conjunction with larger organizational review.
- Evaluate if additional responsibilities warrant a distinct Division in conjunction with larger organizational review.

Focus Area 2: Business Systems

Financial Management, Information Management
Rec. 26,27,28,29,33,34,36
Timing: Initiate 3rd Quarter 2014 (Short Term)

Align business systems and processes to support the new Fleet Management business model including:

- Evaluate the capabilities of the current FMIS system and modify to accommodate defined data management needs.
- Define financial framework for capital and operating fleet budgets to support charge back of costs to fleet user groups.
- Introduce key performance indicators and accountability, define targets for cost reductions.
- Develop supporting policies, procedures, processes and system structures.
- Develop communications and reporting protocols.
- Optimize technological solutions (eg: Telematics).

Focus Area 3: Asset Management Program

Acquisition and Disposal, Utilization Management, Replacement
Rec. 7,8,9,10,11,12,21,22,23,24,25
Timing: Initiate 1st Quarter 2015 (Medium Term)

Develop a comprehensive life-cycle asset management program for the Region's fleet assets as part of Corporate Asset Management including:

- Align capital and operating budgets for all fleet management functions to support the Fleet Management Business Model and Systems.
- Develop and adopt a plan for long range fleet needs, including implementation of a capital planning structure.
- Complete and manage the asset inventory.
- Develop supporting policies, procedures, processes & system structures.

Focus Area 4: Operations Management

Operations Management, Maintenance and Repair
Rec. 4,5,14,15,16,17,18,19,20
Timing: Initiate 3rd Quarter 2014 (Short Term)

Align operational programs and process to ensure effective and efficient services including:

- Develop and document performance standards and quality assurance programs.
- Review in-house vs. contract and alternate support services.
- Develop staff training and engagement programs.
- Develop supporting policies, procedures, processes & system structures.