

Department of Public Works – Master Fleet Agreement

Audit Report

Audited Entity:
Department of Public Works – Master Fleet Agreement

Final Report
Audit work completed: June 2016

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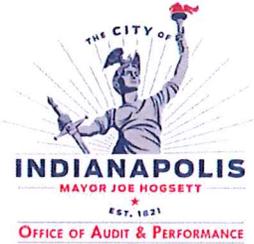
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EXECUTIVE SUMMARY

Audit work completed: June 2016



Why We Did This Audit

This audit was initiated by special request and deemed necessary by the director of the Office of Audit & Performance.

What We Recommend

We recommend that the program be modified to allow for the use and enforcement of uniform procedures and controls.

We also recommend that the City enhance accountability, clearly define responsibilities, and ensure activities promote the effectiveness and efficiency of the program.

Additionally, we recommend that the City disclose the source of program data, perform reconciliations of billed charges, and require that contractors disclose and document any conditions and factors that reasonably affect the execution of contract terms.

Furthermore, we recommend that management ensure contracts follow appropriate procurement guidelines and that contract terms are designed to satisfy their intended purposes.

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<http://www.indy.gov/OAP>

BACKGROUND

In 2012, an executive order established the premise of an electric vehicle procurement program for the City. Conceptualized as a model to reduce dependence on foreign oil, while creating cost-savings over the life of a vehicle, the program was subsequently initiated from a fleet analysis performed by an external consulting group. In 2014, that consulting group (which became Indy-Vision Funding I, LLC and is now called Evercar) was contracted to implement the program in the form of a lease agreement to supply vehicles, related hardware, and certain fleet management services to the consolidated City of Indianapolis, Indiana.

OBJECTIVES AND SCOPE

The objective of this audit was to evaluate compliance with applicable regulations and the effectiveness of activities related to the Master Fleet Agreement between Indy-Vision Funding I, LLC, and the Consolidated City of Indianapolis, Indiana, acting through its Department of Public Works.

Key objectives, as part of the engagement, were to determine if:

- adequate controls and policies were in place and effective
- activities were in accordance with contract terms
- contract iterations were valid and accurate
- invoices received from the vendor were accurately charged
- vehicle data received from the vendor was accurate

WHAT WE FOUND

While the premise of the electric vehicle program appears to embody the best interest of the City, we found the implementation of the program to be ineffective at achieving certain goals and plagued with misrepresentations and noncompliance. In particular, our analysis led us to question the accuracy and validity of the various contracts, vehicle data, and billed costs. Additionally, we found it to be infeasible for the City to verify costs and reported program data. More importantly, we found the agreements and activities to stray from the expressed premise and representations from which the program was derived. This is manifested as a lack of performance, and/or unacceptable performance from the vendor, as well as agreements and actions that fail to satisfy essential objectives. Due to the nature of the agreement and its execution, these deficiencies ultimately pose a risk to the City.

INTRODUCTION

Pursuant to City Ordinance Sec. 202-303, the Office of Audit & Performance (OAP) has conducted a review of the controls implemented by management and assessed the compliance of activities associated with the Master Fleet Agreement. We conducted our examination in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Not all aspects of the Master Fleet Agreement were audited. Additionally, not all perceived weaknesses are discussed in this report; however, the control and procedural deficiencies that we considered to be significant are disclosed herein.

Department responses within this report were provided by the Department of Public Works.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of the audit was to provide reasonable assurance to management that activities associated with the Master Fleet Agreement comply with contractual guidelines, achieve program goals, and utilize best practices. Key objectives were to determine if: (A) adequate controls and policies were in place and effective; (B) activities were in accordance with contract terms; (C) contract iterations were valid and accurate; (D) invoices received from the vendor were accurately charged; and to (E) vehicle data received from the vendor was accurate. The scope of the engagement is for activities related to transactions between the City and Indy-Vision Funding I, LLC (also known as Evercar and Vision Fleet). Due to prior engagements from entities outside the Office of Audit and Performance and in order not to duplicate efforts, we are omitting a review of the validity of funds used to pay invoiced charges for the Master Fleet Agreement.

Judgmental sampling was used. Primary evidence gathering techniques included: 1) researching background information pertaining to the program; 2) interviewing key individuals; 3) reviewing documentation; 4) analyzing program data; 5) studying standard operating procedures; and 6) researching applicable laws, regulations, codes and guidelines.

In order to achieve our objectives, we analyzed activities that derived from the implementation of the Master Fleet Agreement. Test work included recalculating billed charges, verifying reported vehicle data, comparing contract versions, determining compliance with applicable guidelines, and assessing the effectiveness of program activities. Our process of evaluation was designed to identify significant discrepancies within management controls, perceived risks, issues of noncompliance, and non-conformity with best practices. Special consideration was given to factors, separate of the Master Fleet Agreement, that played a role in conceptualizing the electric vehicle program. While our conclusions may refer to the intent of an action, the interpretation of the intent may be our own and not that of those that conceptualized it.

GENERAL CONCLUSION

In general, we perceive the design and implementation of the Master Fleet Agreement to lack the controls needed to effectively accomplish certain objectives and to reasonably ensure efficiency. In particular, this is related to the suitability of the vehicles and services received, and ensuring the adequate performance of those services. While the scope of our engagement was predicated on an analysis of the terms contained in the Master Fleet Agreement, many of the findings were related to the original premise of the program.

The origins of the Master Fleet Agreement are that in 2012 an executive order outlined the premise of an electric vehicle program that was meant to empower the Consolidated City of Indianapolis (City) to purchase and/or lease electric and/or hybrid vehicles to meet all of its passenger vehicle needs. Under that initiative, in 2013 two concurrent processes ensued to realize that concept. In accordance with the executive order, one process involved the use of a procurement process by the Purchasing Division of the Office of Finance and Management (Purchasing). The other process involved a fleet analysis being performed by a third-party vendor. The results of the vendor's fleet analysis report would subsequently be used to design and pilot a customized electric vehicle program for the City. The program came to full fruition in 2014, not as part of Purchasing's procurement process but instead, by way of a contract between the Department of Public Works – on behalf of the City – and the vendor that developed the fleet analysis report – which later formed the Indy-Vision Funding I, LLC and Evercar (hereafter referred to as Vision Fleet). In the following years, the contract would undergo several iterations, including a significant revision as the result of a settlement between the City-County Council and the Mayor's Office. As part of the settlement, Purchasing would rebid the contract for the electric vehicle program; however, Vision Fleet was awarded the contract as the sole submitter. Accordingly, the contract titled, "Master Fleet Agreement between Indy-Vision Funding I, LLC, and The Consolidated City of Indianapolis, Indiana, acting through its department of Public Works, dated November 24, 2015" was implemented to supersede all other agreements.

While the premise of the electric vehicle program appears to embody the best interest of the City, we found the implementation of the program to be ineffective at achieving certain goals and plagued with misrepresentations and noncompliance. In particular, our analysis led us to question the accuracy and validity of the various contracts, vehicle data, and billed costs. Additionally, we found a lack of feasibility for the City to verify costs and reported program data. More importantly, we found the actualized agreements and activities to stray from the expressed premise and representations from which the program was derived. In general, this is manifested as a lack of performance, and/or unacceptable performance from the vendor, as well as agreements and actions that fail to satisfy essential objectives. Due to the nature of the agreement and its execution, these deficiencies pose a risk to the City.

DISCUSSION ITEMS AND DEPARTMENTAL RESPONSES

DISCUSSION ITEM A – Contract Accuracy and Validity

We found iterations of the contract that created the electric vehicle program to be contrary to events that actually took place, mostly related to dates, signatures, and utilization of the procurement process.

Our engagement included the review of six contract documents. Five of the six documents are versions of a contract designed to outline the agreements between the City and Vision Fleet, while the remaining document is an amendment.

In chronological order, the first of the contracts is a lease agreement, dated February 18, 2014. The second contract essentially only changed the title and terminology from “lease” to “rental” and is dated June 13, 2014. The third document was an amendment dated March 3, 2015, which expanded on the terms pertaining to charging infrastructure.

The fourth document is a fully implemented contract that was subsequently used for billing purposes; however, we found inconsistencies that contradicted the validity of its creation and its claimed date of execution. Both, the executive order and municipal code required that the Purchasing Division formulate the electric vehicle program contract. According to Purchasing, its procurement process is designed to ensure legality and compliance with applicable policies and when used, a single approver is able to authorize a payment on a fully implemented contract. Despite these mandates, the electric vehicle program contract, titled, “Master Fleet Agreement between Indy-Vision Funding I, LLC, and the Consolidated City of Indianapolis, Indiana, acting through its Department of Public Works, dated February 18, 2014” did not originate from Purchasing’s procurement process, but allowed for a single person to authorize a payment, as though it had. Notwithstanding the procurement process being circumvented, this contract is essentially identical to the June 13, 2014 contract, includes the March 3, 2015 amendment, and adds an exhibit not found in prior versions but contains a title and signature dated February 18, 2014.

The fifth document we reviewed was a redacted contract that is titled the same as the fully implemented version, but is shorter in length; consequently, it appears to differ from any single version of the contract. This was followed by the sixth (most recent) contract, dated November 24, 2015, which is the result of a settlement between the Mayor’s Office and the City County Council. Although it contains similar verbiage to prior contracts, this Master Fleet Agreement was derived from an independent procurement process and significantly alters the cost structure of the program.

RECOMMENDATION A

It is our recommendation that management ensure contracts follow appropriate procurement guidelines, are accurate, and transparently presented.

DEPARTMENT RESPONSE A

DPW will ensure that every contract has followed all applicable procurement guidelines and has appropriately passed through and been approved by the Purchasing Division. DPW will conduct its fiscal review and procurement of all fleet vehicles and equipment in an open and transparent manner, ensuring that every purchase and any utilization of public funds are available for public view.

DISCUSSION ITEM B – Misrepresentation of Terms

We found the terms and agreements contained in the Master Fleet Agreement to lack transparency of relevant factors that could alter the expected costs and/or benefits to the City.

Not only is the most recent version of the Master Fleet Agreement (dated November 24, 2015) stated to contain the entire agreement between the two parties; it supersedes all prior negotiations, agreements, and understandings with respect to the electric vehicle program. In analyzing the Master Fleet Agreement, we found instances where the terms and agreements outlined either lacked execution, are not feasible, and/or failed to align with the principles on which they were based. With the understanding that this program is unique and implementations do not always result in the way they are envisioned to, our findings are based on errors that are reasonably avoidable.

One such example pertains to the selection of the vehicles, as it relates to their intended purposes. The executive order that established the program stipulated that a study be performed to analyze the needs of the Department of Public Safety (DPS) when procuring vehicles. Vision Fleet was formed from the entity that performed the fleet analysis; however, according to DPS, the selection of vehicles offered by Vision Fleet is unsuitable for use by many of its functions. Despite the Master Fleet Agreement presenting a disclaimer regarding the suitability of the vehicles for a specific use, we found this to go against a fundamental program objective.

This discrepancy also extends to Vision Fleet's agreement to provide maintenance on the vehicles. We found that the nature of certain job activities will inherently negate Vision Fleet's responsibility to provide maintenance. This is due to an ambiguous condition in the Master Fleet Agreement where the normal use of an electric vehicles for certain job functions could be considered "excessive wear-and-tear" and would place the liability of maintenance on the City, thereby diminishing the expected benefit to the City.

Another instance of this is Vision Fleet's expressed intent to contract with Fleet Services as its preferred maintenance and repair provider as long as technicians are certified by the manufacturer to perform maintenance work on the vehicles. Additionally, it is explicitly stated that Vision Fleet agreed to work with Fleet Services and the automotive manufacturers to schedule technician training on the vehicles. In contrast, we found that Vision Fleet was aware that Chevrolet, the manufacturer of more than 96% (205 of 212) of the vehicles, would not certify Fleet Services to provide maintenance on the vehicles. To add to this, Vision Fleet is entitled to two years of free maintenance from the dealership. While the Master Fleet Agreement neither guarantees Vision Fleet's ability to have Fleet Services' technicians certified nor the use of Fleet Services' technicians for vehicle maintenance, we perceived the terms to be misleading and to misrepresent the magnitude of the potential cost savings the City could expect.

RECOMMENDATION B

It is our recommendation that controls be implemented to ensure contract terms are feasible and are designed to satisfy their intended purposes. In the interest of transparency, clarity, and accountability, we recommend that the City ensure that contractors disclose, and document, any conditions and factors that reasonably affect the execution of expressed contract terms.

DEPARTMENT RESPONSE B

DPW concurs with Recommendation B. DPW's Administrator of Contracts will review and confirm that all terms proposed in a contract are feasible and carefully follow the plans set out for in the agreement and its anticipated purpose.

DISCUSSION ITEM C – Fleet Management Services

We found the implementation of the electric vehicle program to lack an effective and efficient fleet management structure; particularly, as it relates to ensuring accountability, and allowing for the City to independently formulate and verify billed costs and program results. Additionally, we found services provided by Vision Fleet to be either incomplete, inaccurate, or absent.

Given that no provision or recommendation was made to reorganize the City's fleet management operations; it follows that the electric vehicle program was intended to operate within the confines of the City's existing fleet management system. With the City's fleet management system being decentralized, it leaves vehicle management in the hands of the entity to which they are assigned. While DPW may act as a conduit between the City-County entities and Vision Fleet – for certain activities – the City does not possess a central fleet manager who is responsible for coordinating activities between all entities and ensuring critical objectives are met. Consequently, we found this to be problematic as the City neither has a way to implement uniform standard operating procedures and controls that would promote consistency, accountability, and efficiency of fleet operations nor track and organize contract vendor contract violations.

One illustration of this is in the misalignment of program cost structures. Program costs are structured in two parts. One part involves Vision Fleet billing the City, by way of DPW, for incurred vehicle charges. These charges vary from month-to-month and are based on the performance and utilization of the entire electric vehicle fleet. The other part involves DPW operating a chargeback model that translates program costs to the entities that utilize the vehicles. This charge is a fixed amount multiplied by the number of vehicles in the entity's fleet, and the number of days in the billing cycle. Because the utilizing entity is not charged based on the same cost structure Vision Fleet uses, we perceive this method to lack an incentive for users of the vehicles to operate in the most efficient manner, and lack consequences for inefficient use of the vehicles.

This is exacerbated when considering Vision Fleet's role in fleet management. As rental amounts are heavily dependent on fleet operations, the effectiveness and efficiency of fleet management is vital to determining the overall cost incurred by the City. To address this notion, one stated objective is that the City possesses the desire to obtain certain fleet management services from Vision Fleet. Ultimately, we found that despite the electric vehicle program being developed by Vision Fleet, from its fleet analysis, the services they provide do little to unify the City's decentralized fleet management structure in a way that promotes efficiency. Additionally, we found the performance of these services to be plagued with prolonged and repetitive instances of inaccurate data; inoperable fuel cards; and reports of failed maintenance notifications. Even more critical is the fact that source data (data directly from the vehicles) is not received by the City; instead, the City receives all program and vehicle data from Vision Fleet. This data is presented either through an online portal that was created by Vision Fleet or by correspondence from a Vision Fleet representative. Consequently, the City cannot independently derive the data necessary to validate the accuracy of billed charges and program results. Furthermore, the Master Fleet Agreement does little to specify what services, and quality of services, Vision Fleet is to provide; instead, the terms are vague and disallow for Vision Fleet to be held liable for advisory services provided. Not only does this circumvent the potential for the City to mitigate inadequate performance from Vision Fleet but it incentivizes Vision Fleet to supply data that is advantageous to its own reputation and profitability.

RECOMMENDATION C

It is our recommendation that the implementation of the electric vehicle program be modified to allow for the use, and enforcement, of uniform procedures and controls, and to align with the City's fleet management system in a way that minimizes the cost to the City. It is important to note that our engagement included the review of an internal document that recommended the director of DPW serve as the central fleet manager for the City. In doing so, the City's system of fleet management would effectively be centralized and allow for a single point of contact with independent contractors – such as Vision Fleet. However, at the time of our engagement, the City possessed no such role.

In modifying the design of the program, we recommend that controls be implemented to enhance the accountability of program performance and to further define responsibilities and roles of all parties involved. Included in the responsibilities for the City should be the requirement to perform regular reconciliations of billed charges. Due to the nature of how the City obtains its information, and in order to perform an effective reconciliation, it is our recommendation that the City disclose the source of publicly released data pertaining to the electric vehicle program and subsequently develop a method to independently verify vehicle and program data.

DEPARTMENT RESPONSE C

DPW will explore the establishment of a Central Fleet Manager for the city. Potentially, the Fleet Manager would ensure that all fleet services are managed holistically and would provide for the establishment of and adherence to standard operating procedures for the administration and accounting of vehicles for all departments. Each department would have a representative that would serve on a Fleet Services Advisory Board that would meet regularly to discuss individual and collective department transportation needs and provide for a comprehensive and cost effective plan for interagency partnerships for improving travel across the enterprise. DPW leadership would establish, under the guidance of the Central Fleet Manager, a Reconciliation Committee to monthly reconcile expenses, maintenance and traveled miles for an established percentage of the hybrid and electric fleet. The city would establish an independent process to pinpoint and publicly disclose the source of performance data that would need to be reconciled monthly and would compile a report for the entire program with costs and benefits that would be reported annually.

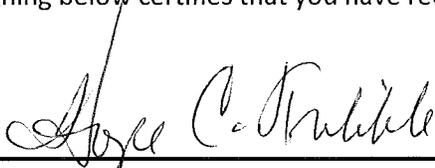
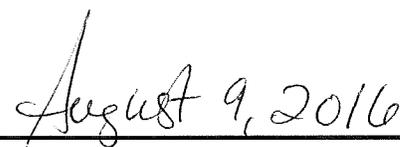
Acknowledgement

Department of Public Works – Master Fleet Agreement
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Signing below certifies that you have received, read, and acknowledge the audit report prepared above.

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Office of Audit & Performance

Date



8-9-16

Lori Miser, Director
Department of Public Works

Date