

**MARYANNE MORSE
THE CLERK OF THE CIRCUIT COURT AND COMPTROLLER
SEMINOLE COUNTY FLORIDA**

**SPECIAL REVIEW
OF
FLEET MANAGEMENT AGREEMENT
(RFP-601340-12/BJC)**

Report No. 090414



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MARYANNE MORSE
Clerk of the Circuit Court and Comptroller
Seminole County, Florida

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SEMINOLE COUNTY
SPECIAL REVIEW
OF
FLEET MANAGEMENT AGREEMENT
(RFP-601340-12/BJC)

BACKGROUND

This special review was performed at the request of the County Manager's Office. There had been various complaints by county staff that the fleet maintenance contractor had not been complying with the terms of the contract.

This contract requires Serco, Inc. to maintain the county fleet to be in complete compliance with all of the original manufacturer's specifications, warranties, and recommendations. The county fleet includes over 2,200 pieces of equipment. The contract was awarded on October 12, 2011 and is for 5 years with an estimated cost of \$19 million.

Contract Administration

Although the county has completely outsourced the maintenance of its fleet, it also has two county employees; a county fleet division manager and a county administrative assistant. They are both physically located at the 5 points fleet facility. The Fleet Division Manager acts more or less as a contract administrator. The administrative assistant acts in a support function. The complete duties and responsibilities, however, are not defined in a policy manual.

In support of the county's Fleet Services Manager, divisions generally have employees assigned as equipment coordinators. They also share responsibility for ensuring that the maintenance is satisfactorily performed by the contractor. They also advise the Fleet Services Manager when the scheduling of maintenance requires re-prioritization; and, report compliance issues to Fleet Services.

The county also has the expertise of a Fleet and Facilities Division Manager and a Director of Public Works to provide direction and management over-sight of the contractor. There also others in the county that have assigned responsibilities.

And finally, the employees (as users) have a duty to physically inspect the equipment after coming back from a maintenance service. These issues will be discussed in more detail in the report that follows.

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Based on the terms of the contract, Serco is compensated based on the following fee structure:

- **In-Target Costs** – Cost incurred to perform fleet maintenance services of all vehicles and equipment identified in the scope of services. This is a fixed priced fee reimbursable to the contractor on a monthly basis.
- **Non-Target** – Cost of work not considered normal wear and tear.
- **Share of Cost Savings** – The county and contractor share cost savings based on actual in-target costs. The county receives 75% and the contractor 25%.

This review addresses this issue and other issues in the report that follows.

Overall Evaluation

In our opinion, there are many county employees who have a stake in the effective administration of this contract. With that being said, county staff should develop a formal business plan (i.e. written policies/procedures/organizational responsibilities) and submit a plan for formal approval to the County Manager's Office for approval.

The Office of the Clerk and Comptroller should continue to support these initiatives.

Based on the results of our review, the following issues need to be addressed by management and the contractor:

- Non compliance with Section 25 of the contract. This may impact the downtime of Emergency Medical Service (EMS) vehicles;
- The contractor's quality assurance (QA) program is not always functioning effectively;
- Responsibilities are not clearly defined by policy;
- No financial penalties for non-compliance with the contract;
- Parts inventory may need to be increased;
- Some Preventative Maintenance (PMs) is past due; and,
- No formal agreements for servicing outside municipalities and officials.

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FINDINGS AND RECOMMENDATIONS

FINDING NO. 1

Non-compliance with Section 25 of the contract.

The contract requires certain minimum staffing levels of trained and certified mechanics. More specifically, Section 25.3 states in part:

"The contractor shall employ highly qualified, trained personnel to provide services to the vehicles.....shall employ, in order to fulfill contract obligations under the terms of the contract documents, at least:

- a. *Fire Equipment Shop :at least (6);*
- b. *Heavy Equipment Shop at least (7);*
- c. *Welding Shop: at least (1);*
- d. *Tire Shop: at least (1);*
- e. *Light Vehicle Shop: at least (5);*
- f. *Generator Shop: at least (2);*
- g. *Landfill: at least (2);*
- h. *Transfer Station: at least (4)"*

During contract negotiations, the county agreed to pay a monthly fee to Serco of \$315,324.84. This fee includes a requirement that Serco will have a total of 28 trained and certified mechanics physically working at the locations noted above.

We found that for a twelve month period, the contractor had grossly understaffed between 11% and 19% percent each month. Thus, the county was billed for and paid for employees who were not physically working on county owned vehicles.

Non compliance with the terms of the contract results in: (1) taxpayers paying for services that were not rendered; (2) emergency vehicles not being repaired in a timely manner to ensure that the public safety is protected; and, (3) may result in the quality of repair services becoming diminished (i.e. quality assurance issues).

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Current Status

This issue was brought to the attention of the County Manager's Office and also to executives of Serco. The billings for the month of March 2014 and April 2014 have been adjusted to provide some financial relief to the county. Also, Fleet Services and the Office of the Clerk of the Circuit Court and Comptroller's are continuing to monitor staffing levels. Additional adjustments will be required if staffing continues to be below the contract minimums.

Recommendation

1. The Fleet Services Program Manager should continue to monitor and report the manning levels for compliance with the contract
2. The Office of the Clerk of the Circuit Court and Comptroller should adjust monthly billings as required.
3. Continued non-compliance with the terms of the contract should be addressed

Management Response

Clerk Recommendation # 1

PW Response – PW concurs with this recommendation. The Fleet Program Manager started keeping daily track of manning levels since May 9, 2014. Daily reports (taken three times a day) have been sent to Clerk, Deputy County Manager, PW Director, and Division Manager of Fleet / Facilities on a daily basis. Fleet will continue to monitor SERCO's manning levels.

Clerk Recommendation # 2 – The Office of the Clerk of the Circuit Court and Comptroller should adjust monthly billings as required.

PW Response – PW respectfully disagrees with this recommendation. Per contract, the County pays a monthly payment of \$ 315,324.84, for (11) months. Serco and County staff closely track actual contract spending, which includes labor and parts, on a monthly basis. On the final invoice of the year, the monthly billing is then reconciled with actual labor and material that have been spent to date, if any credit is due to the county, then the final invoice is reduced by those credits and the county gets to keep 75% of those savings where 25% is credited to SERCO. As such, it is in Serco's best interest to keep contract spending within the in-target contract ceiling, while achieving contractual performance requirements, in order to secure a monetary incentive at the end of the fiscal year. Based on the contract, the County only pays for Serco mechanics that are present for daily business or are on approved time off. Serco uses a Kronos payroll system to track and report daily labor for mechanics. These payroll reports are used to calculate billable hours for their monthly invoices. The County does not pay for vacant positions or mechanics on leave without pay. As such, understaffing would result in a reduction of billable hours to the County; and therefore, a reduction in actual contract spending.

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Audit Comment

This management response is very disappointing because it indicates that management is not fully committed to program compliance. It further suggests that if the contractor elects to staff at a significantly lower manning levels then it still is entitled to the full \$315,324.84 per month. This theory isn't logical.

The contract does have a fixed monthly fee of \$315,324.84 to cover the negotiated cost of all of the normal preventative maintenance for the county fleet. This fixed fee, however, is based on the contractor maintaining minimum staffing levels of 28 professionally trained technicians.

It was necessary to have this number of technicians available to ensure that maintenance was completed timely; and a further guarantee that high risk public safety emergency vehicles were back in service as soon as possible. This is what Serco proposed; and the county agreed to these terms in the contract.

County policy always requires: (1) staff to confirm compliance with contract terms; and (2) pay only for the cost of services rendered. If the contractor only partially complies with parts of the contract, then, it should only be paid for the portions it is in compliance with.

Moreover, let's take a simple hypothetical example. The county issues a purchase order to a supplier for say building materials; and the supplier only delivered half the order, the county would only pay half of the bill. The same can be applied for a contract (like Serco) that is labor intensive. If the contractor wants to get creative with staffing, then, the county is obliged to also offer payment adjustments as an offset.

Finally, we want to refocus on the conclusions reached in a management meeting. As you recall, in April 2014, a management meeting was chaired by the Deputy County Manager along with the Chief Deputy for the Clerk of the Circuit Court.

The purpose of the meeting was to discuss concerns relating to the quality of work by the contractor and also the serious back log of work that was not being completed on schedule. There was also discussion on the seriousness of the unacceptable maintenance on Public Safety's Emergency vehicles.

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The following key members of management were in attendance at the meeting:

- Director of Public Works;
- Fleet Services Manager;
- Facilities and Fleet Division Manager
- Deputy County Manager;
- Purchasing Manager;
- Purchasing Procurement Manager;
- Public Safety Fire Chief;
- Environmental Services;
- Chief Deputy Clerk – Clerk and Comptroller's Office;
- Sheriff's Office Fleet Specialist

This group of managers all agreed that Serco was contractually required to maintain at least 28 technicians (28) during normal working hours. This is what they signed up for in the contract.

It was also concluded from this meeting that because the staffing had been below this, it contributed to vehicles not being serviced in a timely manner. It also was the viewpoint of management that this staffing issue might be a contributing factor to the quality assurance issues discussed in this report. If the required number of technicians were not available there was a financial impact to the county.

The management team agreed to the following:

1. The contractor must be made to comply the terms of the contract by fully staffing.
2. The financial inequities resulting from the staffing issues need to be addressed; and finally,
3. The contractor's quality assurance issues need improvement.

At the request of management, the Office of the Clerk of the Circuit Court and Comptroller initiated the process of financial relief. The March 2014 and April 2014 billing invoices were adjusted conservatively. The audit of the Serco records further indicated that it had understaffed for many other months. Although the Office of the Clerk and Comptroller is of the opinion that additional withholds could be made, it held back further relief until management could work with Serco management for a corrective action plan.

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To protect the interests of the taxpayers, we again recommend that management stands firm relating to obtaining financial relief from the contractor. The Office of the Clerk of the Circuit Court and Comptroller is committed to providing further adjustments if required by management; or, if the contractor doesn't voluntarily adjust its future billings.

FINDING NO. 2

Management responsibilities not defined.

Since 2001, the county has outsourced its fleet maintenance to Serco, Inc. For the most part, the contract defines Serco's specific responsibilities for managing the day to day fleet maintenance operations. The contract also defines the software to be used, performance measures, billing and payment terms and management reporting.

Management has not yet clearly established its own internal policies and procedures in writing that define the responsibilities of employees in both Fleet Services and the respective divisions. Although the maintenance of the fleet has been outsourced, there are still some responsibilities for contract administration.

The following employees are involved with administering of this contract:

- **Fleet Maintenance Program:** This division of Public Works has two employees; a fleet division manager and an administrative assistant. They are both physically located at the 5 points fleet facility. The Fleet Division Manager acts as a contract administrator. The administrative assistant is responsible for processing the supporting documentation of the Serco invoices. These complete duties and responsibilities, however, are not defined in a policy manual.
- **Equipment Coordinators/Division Representatives:** These representatives are in support of the Fleet Services Manager. These coordinators also share some of the responsibility for ensuring that the maintenance is satisfactorily performed. They also advise the Fleet Services

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Manager when the scheduling of maintenance requires re-prioritization; and, report compliance issues to Fleet Services. Their specific duties and responsibilities are also not defined in a policy manual. And, finally;

- **Users/County Employees:** The employee's using the equipment has a responsibility to physically inspect the equipment after coming back from maintenance.

There is currently only one policy that addresses the County Fleet. The policy is Administrative Code 38 "Vehicle Use Policy". This policy is to establish operational guidelines and policies relating to the operation of County Vehicles. There is also been some initiatives by the Public Works Department to establish an internal procedures (dated March 7, 2013) that address some of the previous issues addressed by the outside consultant Chatham Inc. We have also reviewed various correspondences from county staff, minutes from BCC meetings, and budget work sessions that have provided the staff with direction on the fleet replacement program. During the economic downturn in 2008, the BCC provided specific direction to staff to maintain the current fleet until the economy could support the replacement program.

Now that the economy has improved and there have been a series of suggestions by various parties to the Public Works Department regarding the administration of the Fleet Program, it is now time to re-establish the county policies and expectations.

Establishing a written policies, procedures, and responsibilities ensures that the fleet contract is effectively administered by a consistent process approved by the county manager's office.

Recommendation

Publish a comprehensive policy and procedure manual defining management responsibilities.

Management Response

PW Response – PW concurs with this recommendation. PW has identified and documented internal policies and procedures for Fleet administration. Staff is working diligently to implement best practices in an effort to improve ongoing operations, customer communication, and contract administration (see Exhibit C). Staff will also continue to identify, document, and communicate the key roles and responsibilities for all stakeholders involved in the County's fleet. Planned implementation date for all of these improvements is 2/28/15.

FINDING NO. 3

Some quality assurance (QA) issues noted by staff.

There have been numerous issues brought to the attention of county management regarding the contractor's quality assurance program. The complaints have been from more than one division at the county. Section 27 of the contract discusses the contractor's responsibilities for its quality assurance (QA) program.

Per Section 27.1:

"The CONTRACTOR shall implement and maintain a Quality Assurance Program, subject to change by the COUNTY, for repair, management, and maintenance of the COUNTY fleet. The program shall provide provisions for reporting and maintaining monthly performance standard ratings."

Also, Section 29 of the contract addresses the county's right to inspect work deficiencies and contractor operations.

Per Section 29.1:

"The CONTRACTOR shall furnish to the COUNTY access to all operations and with every reasonable opportunity to determine whether or not the work is being performed by the CONTRACTOR in accordance with the requirements of the contract documents. The COUNTY may inspect the CONTRACTOR'S operations and equipment and the CONTRACTOR shall permit the COUNTY to make such inspections at any reasonable place and time."

Moreover, the contract allows the county to remedy any deficiencies and to get some financial relief for any deficiencies noted.

Section 29.2 states:

"In the event that the COUNTY determines that there are deficiencies in the services being provided by the CONTRACTOR under the contract documents, the COUNTY shall notify the CONTRACTOR in writing as

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to the precise nature of any such deficiencies. With (10) working days of receipt of such notice or such other period of time as the COUNTY may prescribe, the CONTRACTOR shall take all reasonable and required steps to correct any deficiencies. Failure to make corrections with that period will result in the CONTRACTOR being in default of the contract documents.”

With this being said, in summary: (1) the contractor is responsible for a quality assurance program; (2) the county has a right to inspect and notify the contractor of all known deficiencies; and,(3) the county has rights for obtaining relief from deficiencies.

There have been two departments that have been vocal about quality assurance; Environmental Services, and Public Safety.

Complaints of Defective Work

Public Safety Quality Assurance Issues:

Public Safety's Fire Chief expressed concern on the number of Fire Rescue Vehicles that were not serviced in a timely manner. She also had a specific complaint about the following quality control issues. Here are some excerpts from Chief Mims recent email dated April 14, 2014:

“The attached photo and follow up visit to fleet this morning gives me concern for the quality assurance process on repairs. This rescue (35) lost power while in operation sometime last week and was taken in. I understand a wire was possibly damaged. When the truck was returned, electrical tape had been used to secure the harness. This harness feed supplies to the whole truck. R35 was directed to return to fleet this morning (by fire) for follow up. Serco gave a pull on the harness and it came loose easily and they admitted it should not have been repaired this way. Records were checked and no new harness clamp had been ordered which was broken and tape was the apparent answer. R35 had to switch into our last reserve this morning.”

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The following is a picture of the harness the Chief was referring to in her email.

ELECTRICAL TAPE USED TO SECURE HARNESS



ENVIRONMENTAL SERVICES

Environmental Services has reported several issues to the County Manager's Office. These issues have been reviewed with the Serco Program Manager, Fleet Services Manager, and other management officials for corrective action.

Noted in the picture that follows is an example provided of a trailer that was not fixed correctly and required re-work.

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Recommendation

1. Fleet Services Manager should chair a committee meeting with all functional divisions to go over quality complaint issues. The committee should jointly decide a corrective action plan for Serco to follow to satisfy all outstanding issues.
2. Fleet Services manager should report the results of the committee meeting to the director of public works and also the county manager's office.

Current Status

The issues identified by county staff as concerns have been elevated to the County Manager's Office and the Office of the Clerk of the Circuit Court. There have been many high level meetings with executives from Serco to address the quality assurance program. It is our understanding that Serco has invested the resources into highly skilled consultants to address the issues raised by county staff.

Management Response

Clerk Recommendation # 1 – Fleet Services Manager should chair a committee meeting with all functional divisions to go over quality complaint issues. The committee should jointly decide a corrective action plan for SERCO to follow to satisfy all outstanding issues.

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PW Response - PW concurs with this recommendation. The contractor has responded to recent concerns regarding quality of services and implemented an increase in quality assurance inspections and by requiring a second independent technician to review work performed on vehicles prior to them being put back in to service.

Clerk Recommendation # 2 – Fleet Services Manager should report the results of the committee meeting to the Director of Public Works and also the County Manager's office.

PW Response – PW concurs with this recommendation. SERCO's monthly meeting, in which division stakeholders are present, provides a forum for new issues to be brought up and older issue / status to be addressed. One week prior to each meeting, SERCO sends out an agenda, detailed status reports relating to concerns from prior meetings, and detailed meeting notes to all stakeholders including PW Director, Deputy County Manager, and the Deputy County Clerk.

FINDING NO. 4

No financial penalties or incentives in the contract.

Exhibit A (Scope of Services) Section 16.1 states that the county will evaluate the CONTRACTOR'S performance monthly for each of the following categories:

- Light Vehicles;
- Small Units;
- Heavy Vehicles;
- Heavy Off Road;
- Solid Waste Vehicles;
- Priority Vehicles;
- Stationary Generators;
- Portable Generators;
- Heavy Trailers;
- Light Trailers;
- Preventative Maintenance Inspections;
- Road Service;
- Quick Fixes; and,
- Re-Repairs

The Faster System used by Serco tracks the time spent by a technicians on a work order. It tracks in 15 minute increments as to how long the equipment is not able to be used (down time) by user department.

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There is a numerical value (with a 4 point scale) assigned for each based on the down time. The longer the down time the lower the scoring. A score of 4 is considered excellent performance whereas a score of 2 is considered unsatisfactory.

Although the county always has the option to terminate the contract, there are no financial penalties or incentives for non-performance.

From an audit perspective, other performance measures need to be considered.

For example:

- Track the ACTUAL time it took the contractor to complete the work. This performance measure would include not only the time the technician physically worked on a work order but add into the equation the time waiting on parts.
- In other words, the time Work Orders are coded into a deferred status should also be included. Don't stop the meter from running just because you are waiting for parts. This would serve to rate the contractor as to how long it actually takes to get a job completed, including waiting on parts.
- Internal customer satisfaction should be considered in the performance evaluation. Fleet Services could track on an annual basis the number of customer complaints and a committee could score overall satisfaction.

By not having financial incentives or penalties, there is no benefit to the contractor to perform efficiently and satisfy customer needs.

Recommendation

Establish additional financial incentives or penalties during contract the contract renewal process.

Management Response

PW Response – PW concurs with this recommendation. This will be re-evaluated and included as part of the contract renewal process. Fleet staff will work with Serco and Purchasing to evaluate financial penalties and/or incentives as it relates to the contractor's monthly performance metrics.

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FINDING NO. 5

Parts inventory may need to be increased.

Although the parts inventory system is generally in compliance with the contract, the county has the right to have the contractor increase the size of the inventory.

Section 23.1 of the contract states:

"The contractor shall provide all parts, tires, supplies, materials and fluids necessary for the vehicles consistent with parts management practices satisfactory to the COUNTY".

Serco provides a report of all of the work orders within their management system. The time spent on each work order is tracked to evaluate their performance rating at the end of the month.

When a part is needed that is not available within the warehouse, the work order is placed (or coded in Faster) in a deferred status until the part is delivered to Fleet for installation. Then, the technician re-codes the work order as active and the time spent on the work order starts to be tracked again. This gives a false reading of the actual turn-around time of a piece of equipment.

We reviewed the work orders listed as "deferred status". The report indicates that vehicles are often waiting on parts to be delivered. Also, some parts require several weeks to be delivered. This might indicate that the inventory on hand might or might not be sufficient to provide for timely completion.

The county should request a historical report from Serco of all items placed in a deferred status waiting on parts. This provides a history of the parts being ordered from those in deferred status to see if there is a need to increase the on-hand parts inventory. For example, if a certain type of equipment is consistently place on deferred status for a particular part, the part may be a candidate to have on-hand. This is especially true for Public Safety vehicles. Even though it might be a tad more costly, it might be prudent to have parts available to keep emergency vehicles running.

By having parts available for service in a timely manner ensures that vehicles and equipment is operational as needed.

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Recommendation

Serco should provide to Fleet Services a history the parts special ordered not available from the on-site parts warehouse.

Fleet Services should meet with functional division management to jointly determine if the current inventory on hand is sufficient.

Recommendation

Clerk Recommendation # 1 – SERCO should provide to Fleet Services a history of parts special ordered not available from the on-site parts warehouse.

PW Response - PW concurs with this recommendation. SERCO has increased their inventory to address County concerns from \$ 187,124.48 in May 2014 to a present value of \$ 204,204.56. The inventory has been increased in categories of belts, tires, fire equipment, air conditioning, and fifth wheel parts based on division stakeholder input and trend analysis.

Clerk Recommendation # 2 – Fleet Services should meet with functional division management to jointly determine if the current inventory on hand is sufficient.

PW Response - PW concurs with this recommendation. SERCO is currently conducting monthly meetings with division stakeholders that will address any issues / concerns regarding inventory levels and other services SERCO provides.

FINDING NO. 6

Some preventative maintenance items are past due.

Serco is responsible for implementing a preventative maintenance program that is satisfactory to the county. The program is designed to be in accordance with professionally recognizing good fleet maintenance practices.

Section 7.4 of the contract states:

"The CONTRACTOR shall develop and implement a PM scheduling system that provides written or electronically generated (i.e. E-Mail) monthly notifications to the COUNTY (as approved by the COUNTY) as to when PM services are to be scheduled for particular Vehicles. This scheduling system shall be consistent with that presently used by the COUNTY and shall be consistent with that presently used by the COUNTY and shall be implement in such a way as to minimize disruption to or of COUNTY operations."

We have interviewed county staff and reviewed the actual notifications that this procedure is being performed as required.

Section 7.5 of the contract states:

"The COUNTY shall be responsible for transporting Vehicles to the Garage for PM services when scheduled, with the following exceptions; provided, however, that the COUNTY may direct the CONTRACTOR to perform PM for any vehicles at any COUNTY facility that the COUNTY deems appropriate."

We requested from Fleet Services a report that identified those vehicles that were over 60 days past due the Preventative Maintenance Schedule for service. There were a total of 103 vehicles that were past due the PM Service date established. Noted below is a summary by department of the past due.

Public Safety	47
Environmental Services	19
Leisure Services	6
Public Works	20
Other	<u>11</u>
Total	103

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Some of the equipment on the list is over 2 years past due according to the report. We do recognize that some may be obsolete and no longer require to be serviced.

Not submitting equipment for proper maintenance could result in additional costs to the county.

Recommendation

Division management should review the over 60 day delinquency report and submit the equipment to Serco for maintenance.

Management Response

PW Response – PW concurs with this recommendation. Staff has developed a new "PM Dashboard" that will be published in September. The new report provides immediate access to a "live data" PM report that is accessible by all County staff. The report is concise, streamlined, and easy to understand. The report employs using color-coding to differentiate upcoming, due, and past due PMs. Moreover, monthly notifications will be sent to County staff as a reminder to access the PM Dashboard and to address delinquent PMs.

FINDING NO. 7

No inter-local agreement with municipalities.

There are currently no inter-local agreement between municipalities and other government officials regarding billing for fleet maintenance. It has been the previous practice to bill for fleet services based on the standard non- target rates identified in the contract with Serco. There have been some inconsistencies in the past on how each is to be billed.

By not having inter-local agreements may result in possible over billings for services rendered.

Recommendation

Establish a consistent business practice for administering the program for outside agencies.

Management Response

PW Response – PW concurs with this recommendation. Fleet staff will work with municipalities and the County Attorney's Office to draft and execute inter-local agreements for fleet maintenance services. Costs would be billed directly to municipalities (not through Fleet Services). Currently, Seminole County has no municipalities in which services are being provided by SERCO.

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