



City of Markham

Fleet Operations Audit

April 1, 2025



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Introduction - Background

Background

- The City's Operations Department – Fleet Division (referred to as "Fleet Operations"), supports cross-functional operations within the City with a fleet of vehicles and equipment, currently operating 283 licensed vehicles and 717 non-licensed equipment across 15 divisions.
- Fleet Operations functions include fleet tracking and monitoring, asset maintenance, asset acquisition, and safety and compliance. Fleet Operations makes use of various fleet management tools to assist in the optimization of fleet lifecycle costs, facilitate a safe operating environment and support Markham's sustainability goals.
- Most recently, the City has implemented an Enterprise Asset Management system (called "Lucity") which Fleet Operations is able to utilize to manage its asset inventory, assess the condition of assets, and log, track and determine maintenance needs, and record fuel usage.
- The City undertook this audit in order to evaluate the efficacy of fleet management and identify potential opportunities for improvement to return enhanced value to the City.

Introduction – Objective and Scope

Objective

To assess the effective and efficient management and operation of the departmental vehicle and equipment fleet throughout its life cycle. Specifically, this audit assessed whether:

1. Fleet Operations services and functions are well governed and managed;
2. Fleet Operations expenditures (and recoveries) are made with due regard for economy and efficiency, providing good value for the City's taxpayers; and,
3. Appropriate procedures are in place to measure and report on the effectiveness of Fleet Operations services and functions.

Scope

The scope of the audit focused on:

1. **Governance & Structure Review** – including governance structure, organization structure (e.g., centralization of the fleet management function), management structure, performance/results management and decision-making, reporting and monitoring, and policy existence.
2. **Financial & Operational Results of Fleet Operations** – including key performance indicators and analysis of common standard performance measures for Fleet Operations and including the quality of and access to relevant data.
3. **Business Case Review** - including those developed for innovation initiatives, capital replacement and acquisition vs. rental decisions. Review will include business case structure, data, evaluation and decision criteria (objective and subjective), efficacy of calculations and analysis, review and approval protocols, and justification narrative.

Summary of Strengths



Area	Strengths
Governance & Management Structure	Fleet Operations has a strong leadership structure with personnel at various hierarchy levels. The meeting cadence is also strong, allowing for appropriate levels of review and approval among various levels of management, up to the Commissioner, Community Services and the Chief Administrative Officer. The leadership structure in place and meeting cadence observed allows for effective management review, feedback and decision-making through Fleet Operations budgeting and day-to-day functions.
Operational Reporting	Fleet Operations maintains a set of operational reporting that guides day-to-day management activities. There are also other reports that are generated and reviewed for Fleet Operations management. All of these reports provide useful inputs for day-to-day management and ultimately for analysis and decision-making purposes to evaluate the composition of the fleet itself, efficient stockroom inventory levels, work order management, and vendor management.
Ability to Start to Access Systems and Data	Although Lucity is a relatively new system utilized by Fleet Operations, this Enterprise Asset Management system offers Fleet Operations with the opportunity to start to leverage data, develop performance measures and monitor performance over time.
Business Cases for New Fleet Purchases	Fleet Operations assesses options to justify fleet purchases and procurement of vehicles, equipment and related services. While the City has general policies that govern asset replacements, Fleet Operations takes a prudent approach by evaluating, through a business case, the specific asset that may be subject to replacement by determining an optimal course of action by balancing maintenance costs, remaining life and salvage value against the cost of replacement. The framework for business case evaluation is evident, with strong policies, developed templates and robust review and approval procedures.
Foundation for the Development of a Low-Carbon Municipal Fleet Strategy	In July 2023, the City engaged Dunsky Energy + Climate Advisors (“Dunsky”) to produce a “Low-Carbon Municipal Fleet Strategy”. The Dunsky report, delivered at the end of September 2024, was to “recommend a comprehensive municipal low-carbon fleet strategy that is effective, realistic, and informative, while meeting all federal and municipal emission targets in the next few decades”. The Dunsky report is a thoughtful and comprehensive report and provides the foundational information and low-carbon considerations for the City to develop and implement its own Municipal Fleet Strategy. We understand that the report and the City’s strategy and plan will be presented to Council in the upcoming months.

Summary of Observations, Recommendations and Management Responses



#	Observations	Rating	Recommendations	Management Responses
1	<p><u>Fleet Operations and the Fire Department</u></p> <p>During the audit, it was noted that there is a current lack of clarity with regards to roles and responsibilities between Fleet Operations and the fleet function within the Fire Department (referred to as Fire Fleet in this observation). There are different sets of perceived requirements between the two units and outstanding questions about the optimal degree to which Fire should operate independently versus adhering to a more centralized Fleet Operations structure. Central to the lack of clarity is the application of centralized Fleet Operations' policies and procedures to Fire Fleet operations, and the level of collaboration to facilitate efficient and effective fleet operation services.</p> <p>The lack of clarity between Fleet Operations and Fire Fleet may impact the overall effective and efficient management of fleet operations, especially any efficiencies that can be gained through a centralized fleet model, as well as consistency in policy, procedures and processes, and financial accountability.</p>	M	<p>A centralized fleet operations structure and governance model should be maintained, however, the roles, responsibilities and approval processes between Fire Fleet and Fleet Operations should be reviewed and clarified for optimal performance. This should include policies and processes, consideration of a simple service level agreement, and enhanced collaboration.</p>	<p>City staff agree that the centralized fleet operations structure and governance model should be maintained.</p> <p>Where resources permit, we will review and document the roles, responsibilities, and approval processes as part of ongoing continuous improvement efforts.</p>

Summary of Observations, Recommendations and Management Responses



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2	<p><u>Financial Reporting – Cost Allocations and Credits</u></p> <p>During the audit, we identified that the Fleet Operations monthly internal financial report does not represent a full costing of Fleet Operations, as it does not include all costs and credits for Fleet Operations functions.</p> <p>By not allocating all costs and credits for Fleet functions, the City will not have a true picture or full costing of all Fleet Operations costs which may impact decision-making, as well as not knowing the full extent of expenditures, variances to budgets, and other financial implications.</p>	M	<p>Conduct a review of the Fleet Operations' monthly internal financial report with the view to ensure that all costs, credits and allocations of all Fleet-attributable functions are appropriately reflected. This will allow Fleet Operations to standardize reporting that better reflects Fleet Operations' functions and enable performance comparisons/benchmarking to other Fleet management entities.</p>	<p>City staff recognize the importance of regularly reviewing and analyzing financial information. As part of ongoing continuous improvement efforts, we will consider any necessary updates to tools and templates to ensure that adequate and relevant information is captured.</p>

Summary of Observations, Recommendations and Management Responses



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3	<p><u>Fleet Operations' Strategy, Business Plans, Goals and Performance Measures</u></p> <p>While business planning is conducted at the Fleet Operations level with support from the Operations Department, strategic planning is conducted only at the Operations Department level, with no strategic or detailed plans, goals and performance measures at the sub-division (i.e., Fleet Operations) level.</p> <p>By not having a Fleet Operations strategic plan, and business plan with specific and actionable goals, objectives and performance measures, there may be a lack of clear direction in what Fleet Operations should prioritize, resulting in less than optimal performance, inefficient and/or ineffective use of resources and time management.</p>	L	<p>A Fleet Operations strategy and business plan should be augmented within the <i>Operations Departmental Business Plan</i>, incorporating the priorities, goals and objectives of the City and the Operations Department, as well as corresponding actions and performance measures of Fleet Operations for regular monitoring and reporting, working within and following the City's standard planning processes and timelines.</p> <p>In developing the Fleet Operations strategic and business plans, existing documents could be built-upon by adding specific Fleet Operations strategy, plans, goals, and performance measures.</p>	<p>City staff acknowledge the benefits for an expanded strategy, business plan, and performance measures for Fleet Operations. As part of ongoing continuous improvement efforts, we will evaluate the best available information and integrate it into the Departmental Business Plan to provide clear goals and objectives.</p>

Summary of Observations, Recommendations and Management Responses



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4	<p><u>Data and Performance Measure Reporting</u></p> <p>Standard City practice includes management reporting on an annual basis of the performance measures set in <i>the Operations Departmental Business Plan</i>, however, there are no active reports throughout the fiscal year that provide regular monitoring, tracking or reporting against other performance measures or key performance indicators (KPIs). We note that the City has either recently implemented (or is in the process of implementing) a number of systems that are starting to gather data that will assist Fleet Operations management.</p> <p>Without detailed data, Fleet Operations will not be able to set standard performance measures or targets, track or monitor KPIs, conduct trend analysis to assist with assessing fleet operations performance to make informed operational and managerial decisions, or continuously improve. Implementing data analysis activities will allow Fleet Operations to identify opportunities for improvement, and consequently develop and implement efficiency and effectiveness initiatives for improved service and performance.</p>	L	<p>Continue to assess the data captured by the various systems used by the City and determine ways this data can be further developed, analyzed and incorporated for optimized performance, as well as presented regularly to senior leadership and Council.</p> <p>The data and reports developed should integrate into the performance measures that are set as per Fleet Operations strategic and business plans (refer to Recommendation #3 above).</p>	<p>City staff acknowledge the need to assess and analyze the new and current data generated from the newly implemented Asset Management System (EAM) system.</p> <p>As part of ongoing continuous improvement efforts, we will evaluate the best available performance measures for Fleet Operations and integrate to the annual business plan reporting.</p>

Summary of Observations, Recommendations and Management Responses



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5	<p><u>Capital Budget Contingency</u></p> <p>During the audit, it was noted that Fleet Operations included a \$250,000 contingency allowance in their 2024 fiscal year budget to be used for capital budget overruns. While the City uses the contingency limit as a conditioning exercise to encourage a focus on the impact of budgeting and project overruns, it appears that the contingency allowance threshold of \$250,000 was put in place many years ago and may not be adequate for the size and scale of the City's portfolio.</p> <p>If this limit is too low, the City may not achieve the right balance of project control (through discussion/review when limits are exceeded) and administrative efficiency, whereby projects are permitted to proceed without the need for incremental review.</p>	L	<p>While the specific threshold limit of the contingency amount is not an overly restrictive constraint given overrun accounting and the replenishment process, a detailed root cause analysis of project overruns should be conducted, and where overruns are deemed excessive, the City should implement solutions to improve accuracy and accountability for the capital budgeting and project management processes. Solutions could include the application of contingencies for specific categories of capital, incremental training, and revised review procedures.</p> <p>Consider also developing a more appropriate contingency level based on accepted industry thresholds to help streamline project review and decision-making.</p>	<p>City staff recognize the importance of developing cost estimates that are as accurate as possible, based on the best available information, and integrating this data into the budget process. Updated cost information is consistently considered and utilized to guide planning and budgeting for future projects.</p> <p>Where necessary and appropriate, City staff will incorporate contingencies based on standardized corporate guidelines. Additionally, mechanisms are in place throughout the year to secure additional funding, as needed, to support the timely and successful delivery of projects.</p>

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6	<p><u>Business Case Financial Analysis Templates</u></p> <p>Upon review of the financial analysis template that accompanies business cases, and the completion of two different business cases (i.e., Vehicle Electrification and Rent vs Buy of Seasonal Vehicles), we noted that the template and analysis, which uses Excel, was conducted on an ad-hoc basis, with no clear instructions or explanations of embedded methodology or calculation inputs or results, rendering the financial analysis difficult to understand.</p> <p>Without the standardization of processes and procedures in place, there may be a reduction in the effective and efficient use of business cases, calculations, and other similar analyses when conducting assessments of new initiatives, capital replacements, and other business decisions. Standard financial analysis templates, with guidance around inputs, assumptions, methods of analysis, decision criteria and expected financial results are useful to evaluate the economy of various fleet strategies, options, procurements and expenditures.</p>	L	Financial analysis templates should be developed and implemented in MS Excel for Departments to use for common (and unique when needed) procurements and expenditures.	<p>Corporate templates designed to capture critical information and considerations for decision-making are utilized in key business processes, including the annual budget process and procurement approvals.</p> <p>City staff recognize the importance of regularly reviewing these documents to ensure their continued effectiveness and will incorporate this assessment into ongoing continuous improvement efforts.</p>

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7	<p><u>Reporting Improvement Opportunities</u></p> <p>During review of certain management reports, we noted that improvement opportunities could be made to enhance certain reports' frequency and their contents to assist with efficient and effective review and monitoring of Fleet Operations.</p>	L	<p>Improvements could be made for continuous maturity of the Fleet Operations set of reports, including the:</p> <ul style="list-style-type: none"> • Fleet Financial Statement • Fleet Forecast • Capital Project Status Update • Capital Status Department Review • EV Operating Costs 	<p>City staff recognize the importance of regularly reviewing and analyzing financial information. As part of ongoing continuous improvement efforts, we will consider necessary updates to tools and templates to ensure that sufficient and relevant information is captured.</p>

Recommendation

The Auditor General recommends that:

- The Fleet Operations Audit Presentation be received.

Q&A

