

BACKGROUND

- 8.1** The Province of Nova Scotia owns and leases many types of fleet assets, including cars, trucks, excavation equipment and aircraft. As of January 2005, fleet insurance records identify 2,228 units owned and 133 units leased by the Province. Cost information for the entire Provincial fleet is not available.
- 8.2** The Department of Transportation and Public Works (TPW) and the Department of Natural Resources (DNR) have made significant investments in fleet assets in order to fulfill their mandates. Based on insurance records, these two Departments collectively account for 86% of the Province's owned fleet assets. The majority of TPW fleet assets consist of heavy equipment, whereas the majority of DNR fleet assets consist of light trucks and small equipment. In addition, DNR has helicopters. TPW employs 1,357 units (61% of the Provincial fleet) costing \$89.9 million. DNR employs 553 units (25% of the Provincial fleet). The total cost of these assets is not known to DNR. Exhibit 8.1 on page 131 provides additional information on fleet assets at TPW and DNR.
- 8.3** Each of the two Departments has its own fleet management branch. The branches are responsible for the acquisition, maintenance and disposal of the Department's fleet assets, as well as related matters such as fuel storage and maintenance facilities. Responsibility for the operation of fleet assets belongs to the departmental operating divisions which employ the assets, except for helicopters in DNR which are operated by the Department's fleet branch.
- 8.4** TPW has 4 district offices, 6 repair and maintenance shops, and 68 depots which it uses to manage, maintain and store fleet equipment and supplies. DNR has 3 district offices, 4 repair and maintenance shops, and 28 fuel depots located throughout the Province. (See Exhibit 8.2 on page 132.) TPW employs 181 staff in its fleet operations. DNR employs 21.
- 8.5** Operating costs for fleet management at TPW totaled \$8.8 million for the year ended March 31, 2005, exclusive of amortization expense. \$8.2 million of this amount was allocated to other divisions of the Department based on usage of fleet assets. During the same year, TPW had capital costs of \$6 million for the purchase of new fleet assets.
- 8.6** DNR incurred \$2.7 million for fleet management operating costs during the year ended March 31, 2005, exclusive of amortization. Capital costs of \$1.8 million were also incurred in that year.

RESULTS IN BRIEF

8.7 The following are our principal observations from this audit.

- Fleet management in the Nova Scotia government is not coordinated across the Provincial fleet. Each government department is responsible for the management of any fleet assets employed. Detailed information on the composition and operation of the entire Provincial fleet is not readily available.
- There is limited coordination of fleet operations between Transportation and Public Works and Natural Resources. We identified opportunities to promote economy, efficiency and control over government fleet operations by improving the level of coordination between the two Departments in areas such as policy development, information systems, acquisitions, disposals and fleet maintenance.
- The management information system in TPW is adequate to provide management with information needed to manage the Department's fleet. We were unable to conclude on the adequacy of the DNR systems due to lack of Department knowledge of systems and absence of related documentation. We noted under-utilization of data gathering, reporting and other capabilities of the management information systems in both TPW and DNR.
- Acquisition of fleet assets at TPW and DNR generally complied with existing legislation, regulations and policies.
- We were unable to obtain sufficient, appropriate audit evidence to conclude on whether there is due regard for economy and efficiency in fleet asset acquisition and disposal practices at the Departments. There is insufficient analysis and documentation to support decisions.
- We were unable to conclude on whether there was due regard for economy and efficiency in the maintenance and operation of fleet assets in TPW and DNR due to deficiencies in fleet management systems, analysis and documentation. We noted incomplete vehicle log books, vehicles without log books, inadequate maintenance schedules and records, incomplete information on distance driven, and incomplete warranty information. We also observed instances where routine maintenance was performed long after it was due according to maintenance schedules.
- In DNR, we identified approximately \$45,000 in expenses which were inappropriately charged to fleet operations. We were advised that staff had been instructed to charge these expenses to fleet operations due to availability of unspent budget allocations for the year. Such accounting practices do not provide for accurate financial reporting and are inappropriate.

- We identified instances of non-compliance with the Provincial regulations related to fuel storage and instances of non-compliance with the Provincial procurement policy.
- TPW has completed environmental site assessments on two-thirds of its estimated 80 base locations and identified environmental contamination on almost all of the sites assessed. An action plan to remediate the environmental contamination has not been prepared and the cost of clean-up has not been estimated. DNR has not had its fuel storage locations assessed for environmental contamination.
- Controls over fuel expenses and fuel consumption in TPW and DNR are inadequate to ensure due regard for economy and efficiency. We found that some divisions analyze and monitor fuel expenses, while others do not. The Departments cannot assure that all recorded fuel expenses are incurred for government-related activities, and there are inadequate measures to detect excessive fuel usage due to poor operating and maintenance practices.

AUDIT SCOPE

- 8.8** In April 2005 we completed a broad scope audit of fleet management operations in the Department of Transportation and Public Works and the Department of Natural Resources. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included such tests and procedures we considered necessary in the circumstances.
- 8.9** The objectives of the audit were to assess:
- the adequacy of the information and other systems used to manage fleet assets with due regard for economy and efficiency;
 - whether fleet assets are acquired and disposed of in accordance with existing legislation, regulations, policies and/or procedures, and with due regard for economy and efficiency;
 - the adequacy of the systems and practices used to safeguard fleet assets and ensure due regard for economy and efficiency in the maintenance and operation of fleet assets; and
 - the adequacy of the systems and practices used to manage and maintain fleet fuel supplies to ensure compliance with environmental protection legislation and regulations, and due regard for economy and efficiency.
- 8.10** The audit examined systems and practices for land-based and aviation fleet operations in the two Departments. It did not examine any matters relating to the Province's ferries and boats.

- 8.11** Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with and accepted as appropriate by senior management of the Departments.

PRINCIPAL FINDINGS

Fleet Management Systems

- 8.12** In this section of the audit, we examined the adequacy of the information and other systems used to manage fleet assets and ensure due regard for economy and efficiency. We concluded that there is under-utilization of existing systems, weaknesses in the systems, and an opportunity for better coordination and cooperation between the two Departments.
- 8.13** Fleet management in the Nova Scotia government is not coordinated across the Provincial fleet. Each government department is responsible for the management of any fleet assets it employs. Detailed information on the entire Provincial fleet is not readily available.
- 8.14** The Department of Transportation and Public Works (TPW) and Department of Natural Resources (DNR) have different information systems and varying practices to manage their respective fleet assets. We found very little coordination and cooperation between the two Departments on common fleet management issues. There is no bulk purchasing of similar vehicles or shared training. TPW and DNR have maintenance sites located near each other - sometimes on the same street - which may provide opportunities for savings by combining operations. When vehicle repairs are needed and there is no repair facility nearby, a vehicle operator is not required to use the services of a nearby facility of the other Department.
- 8.15** There are government-wide policies related to fleet operations. TPW has a manual that addresses some fleet management issues, but it is over twenty years old. DNR also has a limited number of fleet management policies. None of these address all significant matters related to fleet management. We were informed that TPW has started to prepare a comprehensive fleet management policy for its own operations.
- 8.16** We believe inter-departmental coordination and cooperation should be encouraged in the fleet operations of TPW and DNR. There are opportunities to improve the efficiency and economy of the Departments' fleet management practices, including using one computer system, developing one comprehensive fleet management policy, and coordinating maintenance services and vehicle purchasing.
- 8.17** We noted that DNR has conducted some planning for its fleet operations. TPW management indicated that they will be reviewing their operations in 2005-06. We believe the development of a long-term plan is an important aspect of fleet management, and this is another area where the two Departments could work together.

Recommendation 8.1

We recommend that Transportation and Public Works and Natural Resources investigate ways of coordinating their fleet management operations in order to promote economy and efficiency. In doing so, consideration should be given to including fleet operations of other government departments and agencies.

- 8.18** **Transportation and Public Works systems** - TPW uses the plant maintenance module of the government's corporate financial management system as its fleet management system. A fleet management component recently became available for the plant maintenance module, and the Department plans to implement it in 2005-06.
- 8.19** We concluded that the plant maintenance module is capable of producing useful and timely reports on fleet assets, and thus can provide management with the information needed to manage fleet operations. The system can produce exception reports, schedule preventative maintenance, and report based on kilometres driven and hours of operation. However, these functions are not used by the Department. We believe the Department's information systems could be better utilized to manage fleet assets, including identification of vehicle maintenance needs and excessive fuel usage, and whether government vehicles are used for authorized purposes.
- 8.20** The Department does calculate an hourly cost for fleet assets. However, the number of hours used in the calculation represents the amount of time an asset is assigned to a project, not the actual time the fleet asset is operating. It is used primarily for allocating fleet asset costs, and is insufficient for managing fleet asset utilization.
- 8.21** TPW regularly monitors its use of the fleet management information system. Staff has identified needed improvements to the systems' reporting capabilities, as well as information needs which are not currently being met. Management believes many of the needs will be met when the Department implements the fleet management component of the plant maintenance module in 2005-06.
- 8.22** TPW staff has limited training in proper fleet management practices. We believe formal fleet management training and continuous professional updating is important to ensure the economical and efficient operation of the fleet. Management has also identified training as an area requiring attention.
- 8.23** **Natural Resources systems** - DNR's fleet management branch is comprised of a motor vehicle section and an aviation section; each with separate management information systems because of the different information requirements of the two operations.
- 8.24** We observed under-utilization of the fleet management information systems in DNR. For example, the Department uses its motor vehicle system to record

distance traveled by vehicles, but this information is not used to manage fleet assets. We noted limited use of system fleet reports and a need for additional training on both systems. Due to the lack of staff knowledge of the two systems and the absence of system manuals, we were unable to gain a sufficient understanding of the systems to conclude on their adequacy for managing DNR's fleet assets.

8.25 We did, however, note the following.

- The primary information system for motor vehicles does not produce accurate and timely reports on fleet assets due to data errors and significant delays in posting vehicle activity reports. The Department is taking action to address these deficiencies.
- Monthly reports from vehicle operators are sent to the fleet manager, who manually enters the reports into the motor vehicle fleet management information system. The Department is attempting to computerize this function.
- Fleet assets exceeding government thresholds for recording tangible capital assets are recorded in the government's corporate financial management system. DNR fleet management staff does not have access to this system. The Department's own systems do not have complete historical cost information for each fleet asset.
- Manual records and electronic spreadsheets are used to supplement the primary information systems. We noted instances where the primary systems would be capable of providing the information supplied by other records if appropriate source data was entered.
- Labour and operating costs for the aviation fleet are not tracked by asset. As a result, complete life-cycle costs for aircraft are unknown.
- Because fleet operation computer systems at DNR are not networked, identical data has to be entered separately into multiple computers. Management stated that a project has been initiated to network its computer systems.
- There has been no formal training on the motor vehicle information system, and there has been no training on the aviation information system in the last twenty years. There is a need for additional training on the systems.
- There is also a need for training in general fleet management practices.

Recommendation 8.2

We recommend that the Department of Natural Resources' fleet management branch review and assess its current information needs and evaluate the ability of current systems to meet them. The Department should also assess the need for additional staff training in fleet management systems and practices.

Acquisitions and Disposals

- 8.26** Acquisitions and disposals are key activities in the management of fleet assets. Our objective was to determine whether or not fleet assets are acquired and disposed of in accordance with existing legislation, regulations and policies, and with due regard for economy and efficiency.
- 8.27** We examined the acquisition and disposal processes within the Department of Transportation and Public Works (TPW) and in the Department of Natural Resources (DNR). We concluded that there is general compliance with existing legislation, regulations and policies with respect to acquisitions, but there are a few areas for improvement. However, we were unable to obtain sufficient audit evidence to conclude on compliance with respect to disposals, or whether there is due regard for economy and efficiency in acquisition and disposal processes.
- 8.28** We tested a sample of acquisitions in TPW and DNR for compliance with the Provincial procurement policy and the Provincial policy on acquisition of fleet assets. We found that fleet acquisitions are in compliance with the Provincial procurement policy, but not with the fleet asset acquisition policy. The Provincial policy on vehicle acquisition and leasing, most recently reviewed by government in October 2004, limits the purchase price for fleet vehicles to \$25,000, not including Harmonized Sales Tax. We encountered several acquisitions in which this limit was exceeded. Management of both TPW and DNR indicated that this limit is too low for many of the types of fleet assets needed for operations.

Recommendation 8.3

Government should review the policy on acquisition of fleet assets and assess the reasonableness of the \$25,000 limit and/or clarify the application of the limit to the different vehicles employed in Provincial fleet operations.

- 8.29** We reviewed the disposal processes in TPW and DNR. DNR disposes of its surplus fleet assets through the Real Property Services Section of TPW which holds multiple auctions throughout the year. TPW Fleet Management Branch disposes of its surplus fleet assets by way of an annual auction which it administers, rather than through the Real Property Services Section of the Department which disposes of Crown assets throughout government. We could not identify a rationale for separate disposal processes within TPW.

8.30 At TPW, we observed maintenance and repair work performed on vehicles just prior to retirement and disposal. Management indicated this is done to ready the assets for sale and increase disposal proceeds. We agreed that certain procedures, such as removal of specialized equipment from a vehicle prior to sale, are appropriate. However, the Department is unable to substantiate that work prior to sale, such as painting vehicles, increased disposal proceeds by more than the cost of preparing the vehicles. Both Departments have a practice of salvaging usable parts from retired equipment prior to disposal. Net proceeds from the disposal of Crown assets are deposited into the Consolidated Fund of the Province.

8.31 The number of fleet assets acquired in a year by each Department is dependent on the capital budget allocated by government. Acquisition decisions in both TPW and DNR are based primarily on a replacement strategy, in which new fleet assets are purchased to replace existing assets which need to be retired. We found no detailed, documented analysis to support the number and type of fleet assets needed to fulfill the operational requirements of each Department, though DNR has surveyed its fleet operators and found that they believe the size of the fleet is adequate. DNR has performed some analysis of the economy of purchasing rather than leasing vehicles. We saw no evaluation of alternative means of meeting operational requirements such as interdepartmental sharing or paying employees for use of personal vehicles. Management of TPW indicated they are performing a review to determine optimal numbers, locations and types of equipment in the Department's fleet to determine whether each asset is being properly utilized and whether other options might be available to meet operational requirements.

Recommendation 8.4

We recommend that acquisition and disposal decisions be better documented in both Departments, and be based on analysis of the best means of meeting operational needs.

8.32 In both Departments, decisions to replace fleet assets are primarily based on condition and expected future operating costs. Assets with the highest operating costs and in the poorest condition are replaced first. This is an informal process, and there is no documentation to support such decisions. In DNR, the decision to replace a vehicle is the responsibility of the fleet manager, who prioritizes all vehicle replacements. In TPW, each of its four districts is allocated approximately a quarter of the available fleet capital budget and replacement decisions are made on a district-by-district basis. The actual percentage of budget allocated can vary from year to year. We believe that a good fleet management system will base replacements on relative operational needs across the whole fleet, and not by department or division. Otherwise, there is risk that a fleet asset in one area will be replaced before one with a higher operating cost and poorer condition in another area.

- 8.33** Both TPW and DNR base purchase decisions on the purchase price of fleet assets. Estimated life-cycle costs such as operating and maintenance expenses are not considered. We believe that purchase decisions should be based on the full life-cycle costs of alternatives being considered in order to promote fuel efficiency and low maintenance costs.
- 8.34** There are Provincial policies which advise that environmental factors such as fuel efficiency and emission standards should be considered in the acquisition and use of fleet assets throughout government. We did not observe such considerations in vehicle purchases by TPW or DNR.
- 8.35** We examined the setting and approval of specifications for fleet asset tenders at both Departments. We found that at DNR, tender specifications are approved by a senior level of management. There is no formal approval of specifications at TPW. In our examination of tender documents, we noted a difference between the two departments with respect to minimum vehicle specifications relating to comfort accessories. We noted no standards at either Department for appropriate comfort accessories in vehicles. Management at TPW indicated they are attempting to set standards in this area.
- 8.36** We noted limited involvement of DNR staff in the evaluation of motor vehicle tenders, whereas TPW staff is actively involved. Accordingly, the evaluation of responses to DNR fleet tenders does not benefit from the knowledge of individuals who best understand the needs and operating conditions for the assets.
- 8.37** Neither Department has a formal post-acquisition evaluation process to determine whether fleet assets acquired are meeting the needs of their operators. Comments and suggestions are informally received by fleet management, but no mechanism exists to ensure these comments are considered during future tenders. We believe there should be a process to ensure any shortcomings in previous purchases are not repeated.

Recommendation 8.5

We recommend that life-cycle costs, environmental performance, and operational performance of similar fleet assets previously acquired be considered in purchase decisions.

Maintenance and Operations

- 8.38** Our audit of the fleet operations of the Department of Transportation and Public Works (TPW) and the Department of Natural Resources (DNR) included an assessment of the systems and practices used to safeguard fleet assets and ensure due regard for economy and efficiency in the maintenance and operation of fleet assets. We concluded that fleet assets are adequately safeguarded in TPW, but practices in DNR could be improved. We were unable to determine if fleet assets

are maintained and operated with due regard for economy and efficiency due to deficiencies in fleet management systems, analysis and documentation.

- 8.39** **Safeguarding fleet assets** - Neither TPW or DNR has a policy which addresses the storage and safeguarding of fleet assets. We found that fleet assets in TPW are generally stored in secure areas such as compounds and garages. Efforts are made to store assets on private property when equipment is in use at locations not owned by the Department. We found that storage and safeguarding of DNR's fleet assets varies from location to location. Some locations store fleet assets in secured buildings, while others store them in unsecured areas.
- 8.40** Both Departments insure fleet assets to mitigate potential losses. Insurance for all Provincial fleet assets is provided through a government-wide policy administered by the Risk Management Branch of the Department of Transportation and Public Works. Based on discussions with Branch management, we found that fleet asset insurance costs are being actively managed. In-house claims management, vehicle-related safety training, and monitoring and change of the structure and coverage of the policy occur. Insurance coverage is acquired without the services and related fees of an independent insurance broker. We noted that the Risk Management Branch is currently examining options, including self-insurance, to further reduce costs. We encourage the Risk Management Branch to continue its efforts in this area.
- 8.41** TPW has programs such as driver training and testing on heavy equipment to safeguard fleet assets. Training is also available in TPW for operators of light trucks and passenger vehicles, if requested. DNR has mandatory driver training for operators of enforcement and firefighting vehicles, and there are plans to expand the program to other vehicle operators. TPW has qualified driver trainers on staff, which provides another opportunity for the two departments to cooperate.
- 8.42** We assessed controls over maintenance supplies and spare parts at TPW and DNR. In both Departments we noted general compliance with the Provincial procurement policy, and regular inventory counts with follow-up of discrepancies. In DNR we identified control weaknesses relating to inadequate segregation of incompatible duties. Staff with responsibility for purchasing also has physical access to inventory and inventory records. We also observed that physical access to inventory, and related passwords and pass codes, are not adequately controlled. We also noted that there is no policy which addresses security issues. DNR management indicated that action has been taken to address some of our security concerns.

Recommendation 8.6

We recommend that the Department of Natural Resources improve safeguarding of its fleet assets, parts and supplies.

8.43 **Maintenance** - Neither TPW or DNR has a formal policy which addresses land-based fleet maintenance. However, there are established maintenance practices, and a clear understanding of maintenance responsibilities and the services to be provided, except for pooled fleet assets. There is a need to clarify responsibilities for preventative maintenance on fleet assets not assigned to individual operators. Fleet asset operators are relied upon to ensure preventative maintenance occurs on schedule. There is no monitoring to ensure it has taken place. Maintenance of aircraft is Federally regulated and is monitored by DNR staff.

8.44 We concluded that systems and practices in both Departments are inadequate to ensure proper maintenance is performed on land-based fleet assets. We noted incomplete vehicle log books, vehicles without log books, inadequate maintenance schedules and records, incomplete information on distance driven, and incomplete warranty information. We observed instances where routine maintenance was performed long after it was due according to maintenance schedules.

Recommendation 8.7

We recommend that Transportation and Public Works and Natural Resources develop a formal fleet maintenance policy and improve existing systems and practices to ensure vehicles are properly maintained. We further recommend that maintenance activities be adequately supported by appropriate documentation.

8.45 **Economy and efficiency - fleet maintenance** - Both TPW and DNR perform in-house maintenance, in addition to outsourcing maintenance to private companies. At DNR, all repairs and maintenance work in excess of \$200 requires approval by the fleet manager, who determines where the repair will be completed. At TPW, light truck maintenance is typically outsourced, but there is an informal policy which requires mechanics to perform work on light trucks when time is available. DNR has some information indicating that outsourcing maintenance of vehicles is more expensive, whereas TPW has information indicating that outsourcing is more economical. Neither Department is able to provide a detailed analysis of the relative economies of performing fleet maintenance in-house versus by private companies.

8.46 Both TPW and DNR employ qualified mechanics to perform repairs and maintenance on fleet assets, but neither Department has established work standards for mechanic utilization, efficiency or effectiveness. DNR assessed its maintenance staff levels in January 2004 and determined they were inadequate to support current workloads. TPW has not recently assessed the appropriateness of maintenance staff levels, but there are plans to do so upon completion of a fleet asset review.

8.47 **Economy and efficiency - fleet operations** - Neither TPW nor DNR has established performance measures for monitoring the adequacy and productivity of its fleet assets. However, both Departments reassign vehicles to promote the use of vehicles

year-round and pool certain vehicles to increase asset utilization. DNR is moving towards a standard vehicle type to facilitate such reassignments. We saw instances at TPW where fleet asset utilization was increased by assigning assets to other government departments and agencies when they were not needed at TPW.

- 8.48** TPW tracks individual vehicle costs for purposes of allocating costs within the Department. Cost allocation is based on rental hours, which are the hours that a fleet asset is assigned to a project rather than the hours the asset is used. Whereas this measure may be appropriate for allocating costs, it does not provide a good measure with which to assess the adequacy and productivity of fleet assets. Tracking of kilometres driven or hours in operation would provide better information for such purposes.
- 8.49** TPW implemented the Federal government's Fleet Smart Program in 2003. The program trains fleet operators in practices designed to reduce fuel consumption. There has been no evaluation of its impact on Departmental costs. No such program exists in DNR.
- 8.50** We believe controls in both TPW and DNR are inadequate to ensure fleet assets are used only for authorized purposes. Neither Department performs audits of vehicle usage. Vehicle logs are not reviewed and there is insufficient analysis of equipment and activity reports. For example, there is no comparison of kilometres driven by time period or across similar fleet assets or operator positions. TPW does not track distance driven. DNR does track distance driven through its monthly vehicle reports, but there is no analysis of this data.

Recommendation 8.8

We recommend that Transportation and Public Works and Natural Resources obtain and use information necessary to monitor whether fleet assets are used efficiently and only for authorized purposes.

- 8.51** Personal use of departmental vehicles is not permitted at DNR. TPW authorizes selected employees to use fleet vehicles for personal use, provided they reimburse the Department at the rate of 21.3 cents per kilometre. This rate is set in Provincial policy. TPW management believes it is based on an estimate of the per-kilometre cost to operate vehicles, and does not include overhead costs such as the amortization of the cost to purchase the vehicle. The Provincial rate for reimbursement for work-related use of employee vehicles is 34 cents per kilometre. We believe government should require employees to reimburse it for the full cost of personal use of Provincial fleet assets when such use is authorized.

Recommendation 8.9

We recommend that government require reimbursements for personal use of government vehicles based on full operating and capital costs.

8.52 The Canada Revenue Agency has defined employee use of employer-owned vehicles as a taxable benefit, even in circumstances where the employee may be required to return to work after regular working hours, such as for ‘on call or standby duty.’ An exception to this rule is where an employee is required to report to a worksite that is not their regular place of work. TPW has authorized selected employees to take fleet vehicles to their place of residence when the employees are on call or standby. A review by TPW staff identified five instances where such authorizations were not documented. The Department has defined the practice as ‘business use’ and the employees are not required to reimburse the Department. The Department does not keep records of such practices, so we could not determine the extent. Management indicated that the practice is advantageous to the Department, but is unable to provide analysis to support this assertion. The Department does not record this usage as a taxable benefit on employee T4 statements. The Department could not support that it is in compliance with the Federal Income Tax Act. We believe this practice should be reviewed by experts in tax law and that the Income Tax Act should be complied with.

Recommendation 8.10

We recommend that Transportation and Public Works document the value in permitting certain unreimbursed use of vehicles by staff who are on-call or standby. TPW should also submit for expert analysis its practices in this area to ensure full compliance with the Income Tax Act.

8.53 Prior to April 1, 2004, Provincial and municipal-owned vehicles with Provincially-restricted licence plates were subject to a one-time \$15 registration fee and \$5 plate fee. Subsequently, all Provincial and municipal government-owned vehicles with restricted plates were required to be registered annually or bi-annually, depending on the class of vehicle. The process followed by TPW and DNR to renew vehicle licences is essentially the same as the process used by individuals. A form must be completed for each vehicle and delivered to Access Nova Scotia locations along with payment of a fee based on vehicle class. The change in process increased workloads and caused delays in putting fleet equipment into use at both TPW and DNR. In contrast, for Department of National Defense vehicles with Federal licence plates, the Government of Canada provides the Province’s Registry of Motor Vehicles with a list of vehicles currently in the Province, and the Registry prepares one invoice based on the list. An annual lump-sum payment is remitted to the Province by the Federal Government. We believe there could be cost-savings if there was a similar process for TPW and DNR.

Recommendation 8.11

We recommend that the current registration process be reviewed to determine if there is an opportunity to improve the efficiency of registering Provincial vehicles with the Registry of Motor Vehicles.

8.54 We found that both TPW and DNR properly dispose of waste products from maintenance processes in accordance with Provincial environmental policies. The Departments use reconditioned parts, recycle parts from retired fleet assets and use bulk oil purchasing to reduce waste. We also noted that Provincial occupational health and safety (OH&S) programs address certain environmental issues related to fleet operations and TPW has expanded its own OH&S program to include environmental audits. This expanded program, referred to as the Health, Safety and Environment Program, only applies to TPW.

8.55 **Classification of expenses** - During our audit of fleet operations in the Department of Natural Resources, we reviewed selected fleet maintenance expense accounts and identified approximately \$45,000 in expenses which were inappropriately charged to fleet operations. We were advised that staff had been instructed to charge these expenses to fleet operations due to availability of unspent budget allocations for the year. Such accounting practices do not provide for accurate financial reporting and are inappropriate.

Recommendation 8.12

We recommend that expenses of the Department of Natural Resources be recorded in appropriate general ledger accounts, and that the Department's budget have no role in how expenses are classified.

Fuel Storage and Consumption

8.56 The Department of Transportation and Public Works (TPW) and the Department of Natural Resources (DNR) maintain fleet fuel supplies at various locations throughout the Province. In addition, purchase cards are used to purchase fuel from private service stations.

8.57 Our audit examined systems and practices used to manage and maintain fuel supplies, as well as to ensure compliance with environmental protection legislation and regulations, and due regard for economy and efficiency. We identified instances of non-compliance with applicable regulations and the Provincial procurement policy, as well as inadequate control over fuel expenses and consumption.

8.58 **Fuel storage and safeguards** - Both TPW and DNR store fuel for use in vehicles, and DNR stores fuel for its aircraft. The storage of fuel in bulk storage tanks is governed by the Province's Petroleum Management Regulations, which require fuel storage tanks to be regularly monitored, inspected and properly maintained. Aviation Fuel is also regulated by the Dangerous Goods Management Regulations.

8.59 TPW has an environmental management system to address the requirements of the Petroleum Management Regulations. This system operates only within TPW, and does not extend to DNR or any other government department. We reviewed the

system and concluded that it does not ensure full compliance with the Petroleum Management Regulations, such as the regulatory requirement for daily testing of fuel supplies. In addition, we found that staff was unaware of the system in three of the five locations we examined at TPW.

- 8.60** DNR has a policy for bulk storage of aviation fuel, but it does not ensure full compliance with the Dangerous Goods Management Regulations. DNR does not have a policy which addresses the bulk storage of motor fuels.
- 8.61** We examined bulk fuel storage practices at five locations for TPW and four locations for DNR. We reviewed systems in place to ensure fuel is properly stored and safeguarded. We found that only one location, belonging to DNR, is in full compliance with the Petroleum Management Regulations. We also observed instances of non-compliance with the Province's Dangerous Goods Management Regulations at DNR. We were told that bulk storage tanks are regularly inspected and properly maintained, but there are no records to support this assertion. We found that access controls for bulk storage tanks are adequate at all locations examined, however we identified and recommended specific areas for improvement. DNR management indicated that action is being taken to address our concerns.
- 8.62** Roles and responsibilities related to fuel storage are not clearly assigned and communicated. We believe formal assignment of responsibilities could improve accountability for safeguarding of fuel supplies and increase the level of compliance with Provincial regulations.

Recommendation 8.13

We recommend that Transportation and Public Works and Natural Resources ensure that bulk fuel storage for fleet operations complies with Provincial regulations. Documentation for inspection and maintenance of storage tanks should be improved. Responsibilities for fuel storage should be clearly assigned and communicated.

- 8.63** **Fuel tank replacement** - Environmental contamination is a significant risk related to fuel storage. The Petroleum Management Regulations require underground fuel storage tanks to be replaced after 15 years of use. We noted two storage tanks at TPW which were not replaced within this timeframe.
- 8.64** We were also made aware of environmental contamination issues within TPW. TPW's Environmental Services Group is responsible for environmental site assessments and the clean-up of contaminated sites within the Department. Staff of Environmental Services Group estimate they have performed environmental site assessments on two-thirds of 80 base locations, and almost all of the sites have some degree of environmental contamination. Staff stated that ten sites have been cleaned-up and six sites are in the process of being remediated. TPW is prioritizing the sites and conducting remedial action as funding becomes

available. TPW plans to remediate three sites in 2005-06 at an estimated cost of approximately \$500,000. The total cost to address all contaminated sites has not been estimated. We encouraged the Department to complete assessments of all of its sites and develop a remediation plan based on the results of the assessments.

8.65 Environmental Services staff at TPW is not explicitly required to inform the Department of Environment and Labour of the results of its environmental site assessments or the status of its clean-up activities, unless the provisions of Provincial emergency spill regulations apply or an adverse effect is or may be caused. This was confirmed by Department of Environment and Labour staff, who indicated that measures are underway to amend the Environment Act to require the reporting of all emergency spills, as well as sites that were previously contaminated.

8.66 Staff of TPW's Environmental Services Group indicated that they will perform assessments for other government departments if requested to do so. DNR was unaware of this service and has not requested any environmental site assessments. As a result, DNR has no authoritative information on the condition of its fuel storage sites. We believe there should be requirements for government-wide inspection of sites at risk for environmental contamination, and any contamination requiring remediation should be dealt with in a timely manner. There should also be adequate communications to ensure all government departments and agencies are aware of TPW's environmental site assessment services.

Recommendation 8.14

We recommend the preparation and implementation of a government-wide policy for the storage and handling of fuel. The policy should be adequately communicated and address all requirements of the Petroleum Management Regulations and Dangerous Goods Management Regulations. Environmental site assessments should be performed on all fuel storage sites operated by the Provincial government, and contaminated sites requiring remediation should be remediated in a timely manner.

8.67 **Procurement** - We found that TPW complies with the Provincial Procurement Policy in the purchase of bulk fuel, but not all DNR purchases are in compliance. DNR sole-sources its supply of drum aviation fuel. The Provincial Procurement Policy permits sole-sourcing in specific circumstances. However, DNR is not in compliance with sole-sourcing approval and reporting provisions of the policy with respect to drum aviation fuel.

Recommendation 8.15

We recommend that the Department of Natural Resources comply with sole-sourcing approval and reporting provisions of the Provincial Procurement Policy.

- 8.68** **Control of fuel consumption** - In both TPW and DNR, fuel costs are charged to the division or branch to which a fleet asset is assigned. Responsibility for controlling fuel expenses and consumption is at the division or branch level. We found that some divisions analyze and monitor fuel expenses, while others do not. In those that do, processes vary from division to division.
- 8.69** Systems and practices for controlling fuel expenses and consumption are inadequate in both Departments. The Departments do not ensure that all recorded fuel expenses are incurred for government-related activities, and there are inadequate measures to detect excessive fuel usage due to poor operating and maintenance practices. Suggested improvements include regular comparisons of kilometres driven to fuel purchased, tracking and verifying kilometres driven, random audits of fuel expenses, comparison of fuel expenses by vehicle type and operator position, as well as the establishment of fuel consumption standards and comparison of actual expenses to these standards.
- 8.70** Fuel, other than bulk purchases, is acquired using Provincial fleet credit cards. The Provincial policy restricts the use of fleet credit cards to fuel purchases and minor repairs. The Province, through the financial institution which issues the card, has also established restrictions which limit where the card can be used. We noted that guidelines on the use of fleet credit cards are communicated to employees and there is a Provincial policy related to appropriate use of the fleet credit cards. These policies are currently being reviewed and updated.

Recommendation 8.16

We recommend measures be taken by Transportation and Public Works and Natural Resources to improve controls over fuel expenses and consumption.

CONCLUDING REMARKS

- 8.71** Fleet management in the Nova Scotia government is not coordinated across the Provincial fleet. Each government department is responsible for the management of the fleet assets it employs. The fleet management practices within the Departments of Transportation and Public Works and Natural Resources vary significantly. We noted the use of different information systems, under-utilization of existing systems, weaknesses in the systems, and opportunity for better coordination and cooperation between the two Departments. The Departments of Transportation and Public Works and Natural Resources should investigate ways of combining or coordinating fleet management operations in order to promote economy, efficiency and better control over government fleet assets. In doing so, consideration should be given to including fleet operations of other government departments and agencies.

8.72

We observed weaknesses in security and control over fleet assets, supplies, spare parts and fuel. Some of the weaknesses relating to bulk fuel storage are in contravention of Provincial regulations. We observed opportunities to improve systems and practices in areas such as fleet maintenance, procurements, disposals and fuel usage which could lead to more economical and efficient fleet operations. We also believe there is a need for expansion of environmental assessment of bulk fuel sites beyond the Department of Transportation and Public Works.

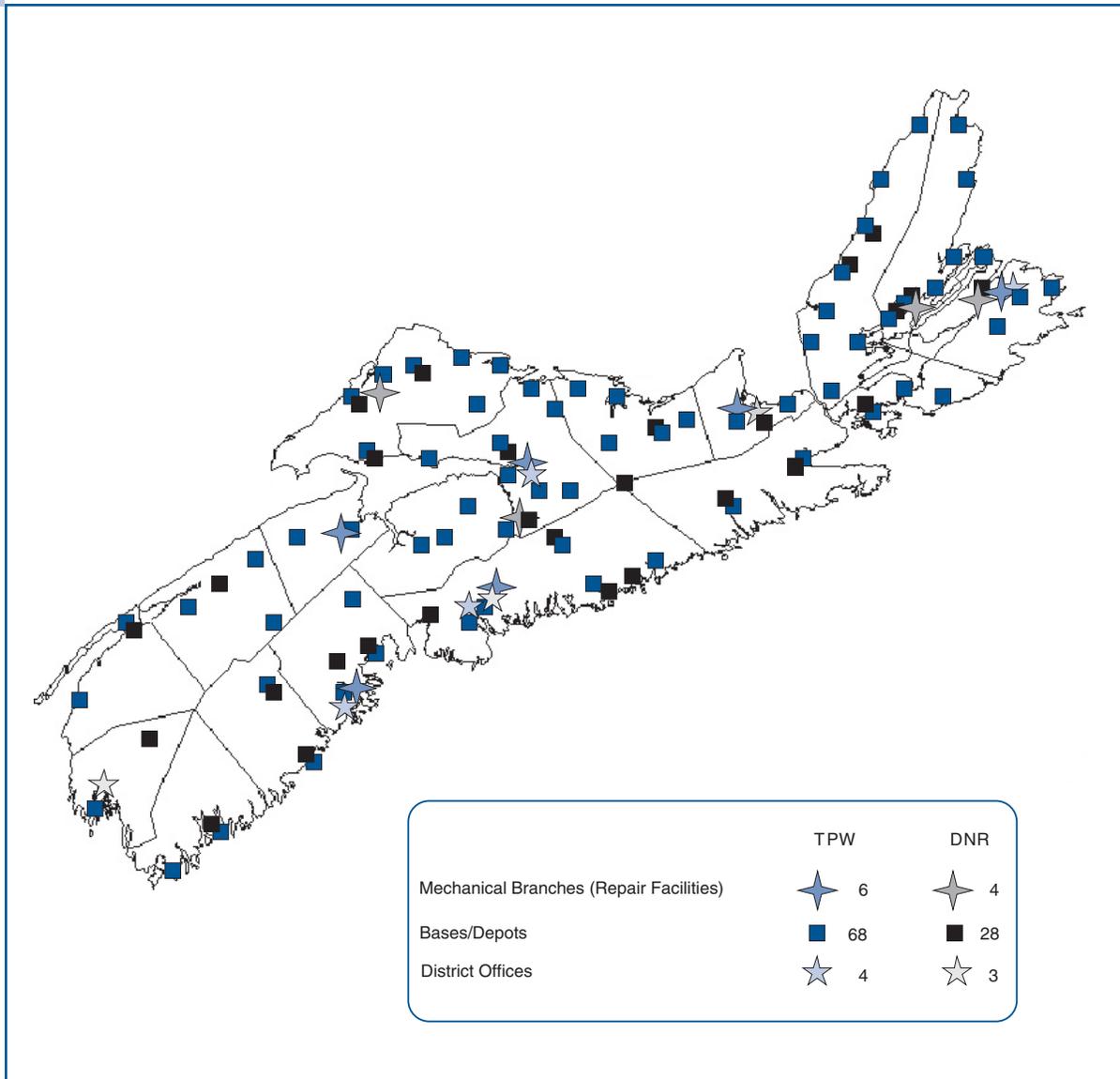
Fleet Assets

Transportation and Public Works					Natural Resources			
Asset Type	# of units	% of Departmental fleet	Average Age (years)	Acquisition Cost	# of units	% of Departmental fleet	Average Age (years)	Acquisition Cost
Light trucks & passenger vehicles	190	14%	5	\$5,236,000	205	37.1%	9	n/a
Heavy equipment	1,101	81.1%	10	\$81,369,000	70	12.7%	20	n/a
Aircraft	-	-	-	-	5	0.9%	18	n/a
Other vehicles and equipment ¹	66	4.9%	13	\$3,323,000	273	49.3%	n/a	n/a
Total	1,357	100%		\$89,928,000	553	100%		n/a

n/a - information not available.

Note 1 - includes fleet assets such as snowmobiles, all terrain vehicles, trailers, air compressors and other small equipment.

Transportation and Public Works and Natural Resources Location of Department Facilities



DEPARTMENT OF NATURAL RESOURCES' RESPONSE

The Office of the Auditor General has completed its joint audit of the fleets of the Department of Natural Resources (DNR) and the Department of Transportation and Public Works (TPW). In response to the audit findings, the Department of Natural Resources has established a Fleet Audit Review Team to consider the audit findings and determine appropriate responses to the findings.

We appreciate this opportunity to respond to the audit and its recommendations.

Recommendation 8.1

We recommend that Transportation and Public Works and Natural Resources investigate ways of coordinating their fleet management operations in order to promote economy and efficiency. In doing so, consideration should be given to including fleet operations of other government departments and agencies.

Recommendation 8.3

Government should review the policy on acquisition of fleet assets and assess the reasonableness of the \$25,000 limit and/or clarify the application of the limit to the different vehicles employed in Provincial fleet operations.

Senior Department of Natural Resources staff will continue to meet with senior Department of Transportation and Public Works staff to identify and support taking advantage of opportunities to promote efficiencies. Although there are significant differences in the composition and use of the

fleets from the two departments, particular attention will be given to establishing fleet policies, acquisitions, potential for shared services and training. Development of fleet policies which apply to both DNR and TPW may also have potential for broader corporate applications.

Recommendation 8.2

We recommend that the Department of Natural Resources fleet management branch review and assess its current information needs and evaluate the ability of current systems to meet them. The Department should also assess the need for additional staff training in fleet management systems and practices.

The DNR Audit Review Team will carefully assess the fleet information requirements needed to effectively manage the fleet and recommend appropriate action. Technical limitations and funding delayed the connection of Regional offices and operations to the government network. The DNR Shubenacadie offices were connected to the government network in May 2005. We note that the operating costs for the aviation fleet, including the costs for parts and fuel are tracked by asset, however, labour costs are not currently tracked by asset.

Recommendation 8.4

We recommend that acquisition and disposal decisions be better documented in both departments, and be based on analysis of the best means of meeting operational needs.

The Audit Review Team will consider fleet acquisition and disposal decisions and processes in conjunction with the audit recommendation and related comments. Although DNR field staff are not involved in the annual evaluations of vehicle tenders, field staff input is considered in periodic fleet reviews conducted by DNR (i.e., DNR Vehicle Fleet Report, January 16, 2004). The DNR Audit Review Team will examine the need to augment the opportunities for field staff input.

Recommendation 8.5

We recommend that life-cycle costs, environmental performance, and operational performance of similar fleet assets previously acquired be considered in purchase decisions.

Recommendation 8.6

We recommend that the Department of Natural Resources improve safeguarding of its fleet assets, parts and supplies.

The DNR Audit Review Team will review current systems in light of the audit recommendations and comments, and provide recommendations to senior management concerning the appropriate application of existing systems and practices for safeguarding fleet assets; and the need to acquire new systems to ensure fleet storage and protection are adequate and consistent across all DNR locations.

Recommendation 8.7

We recommend that Transportation and Public Works

and Natural Resources develop a formal fleet maintenance policy and improve existing systems and practices to ensure vehicles are properly maintained. We further recommend that maintenance activities be adequately supported by appropriate documentation.

DNR will expand the Operations Manual to include a separate section dedicated to fleet policy. The audit included interviews with field staff but did not include interviews with DNR Regional supervisors who have significant responsibilities for local fleet management. The audit results have identified the need to ensure further staff training and information to ensure better awareness of fleet policies and procedures among all DNR fleet users.

The DNR Audit Review Team will review the current practices for the collection and recording of fleet maintenance information and the use of this information in the management of the fleet. The Team will make recommendations on any opportunities to use this information to increase the efficiency of fleet management.

Recommendation 8.11

We recommend that the current registration process be reviewed to determine if there is an opportunity to improve the efficiency of registering provincial vehicles with the Registry of Motor Vehicles.

DNR is consulting with Service Nova Scotia and Municipal Affairs (SNSMR) to determine

if one annual provincial payment could be introduced. SNSMR staff have responded to the DNR inquiry and indicated that they have previously explained to staff from the Office of the Auditor General that there is no plan to change the current system for registering provincial vehicles.

Recommendation 8.12

We recommend that expenses of the Department of Natural Resources be recorded in appropriate general ledger accounts, and that the Department's budget have no role in how expenses are classified

The Department works to ensure that expenses are charged to the appropriate accounts. As a result of the audit, additional communication with staff is occurring to prevent exceptions to this standard in future.

Recommendation 8.13

We recommend that Transportation and Public Works and Natural Resources ensure that bulk fuel storage for fleet operations complies with Provincial regulations. Documentation for inspection and maintenance of storage tanks should be improved. Responsibilities for fuel storage should be clearly assigned and communicated.

DNR is working with the Procurement Office to address the procurement issues identified in the audit. Fuel sheds are being acquired for locations where fuel was stored outside. All bulk fuel tanks have been checked to ensure that they are locked at both the fillers and dispensers. DNR has contacted all bulk

tank locations to ensure tanks are brought into compliance if they were not at the time of the audit.

DNR has requested copies of the Provincial Petroleum Storage Standards from the Department of Environment and Labour. DNR is also confirming that all tanks are registered with district Environment and Labour offices. DNR is also obtaining current copies of the Fire Codes from the Fire Marshall's office to ensure compliance.

Recommendation 8.14

We recommend the preparation and implementation of a government-wide policy for the storage and handling of fuel. The policy should be adequately communicated and address all requirements of the Petroleum Management Regulations and Dangerous Goods Management Regulations. Environmental site assessments should be performed on all fuel storage sites operated by the Provincial government, and contaminated sites requiring remediation should be remediated in a timely manner.

We note that all DNR underground tanks are compliant with the Petroleum Management Regulations requirement to replace tanks after 15 years.

Recommendation 8.15

We recommend that the Department of Natural Resources comply with sole-sourcing approval and reporting provisions of the Provincial Procurement Policy.

DNR has contacted staff at the Procurement office to ensure that all fuel purchases are tendered unless they are deemed to meet the provisions for sole sourcing.

The Department of Natural Resources, through its Fleet Audit Review Team, is carefully considering the results of the audit. The audit and its recommendations will be used to support the Department's ongoing work towards continuous improvement of its operations. As noted in DNR's comments, action has already occurred in some areas.

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS' RESPONSE

Thank you for your report of May 2005 outlining the recent audit of our fleet operations. The findings of the report and the discussions with your staff on their recommendations have certainly been helpful and will serve as a basis for future improvements to the overall management of our fleet. Upon our initial review of the report, we find that we are in general agreement with the recommendations as put forward.

We are pleased that the audit has found that the management information system at our department is adequate to provide the information required to manage the department's fleet, however we certainly acknowledge that there are a number of weaknesses and areas where changes or improved coordination between departments would be beneficial.

In response, the department will be undertaking a more detailed review of the recommendations pertaining to Transportation and Public Works, and will undertake to make improvements to our existing systems, policies, and management practices that will promote economy, efficiency, and stronger control of our fleet assets and operations.

In closing, I would like to acknowledge the cooperation of your office and your staff during the course of this review.

