California State Auditor

BUREAU OF STATE AUDITS

Department of General Services:

Opportunities Exist Within the Office of Fleet Administration to Reduce Costs

July 2005
2004-113

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CALIFORNIA STATE AUDITOR

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July 7, 2005

2004-113

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Office of Fleet Administration (Fleet) within the Department of General Services.

This report concludes that Fleet has performed analyses of the cost-effectiveness of the vehicles that it rents to state agencies, indicating that Fleet is competitive with commercial rental companies. However, the analyses do not fully demonstrate its cost-effectiveness because Fleet lacks assurance that the commercial rates it used in its comparisons are similar to what state agencies would actually pay. Furthermore, the terms of the current contracts that Fleet has with commercial rental companies and the noncompetitive method it uses to select companies may not be in the State's best interest. To enhance the competitiveness of its motor pool, Fleet might draw on opportunities that exist to reduce its costs, such as establishing certain requirements and standards related to vehicle use, investigating the costs and benefits of additional garage closures, and determining how much it spends performing repairs and maintenance services at its garages.

Fleet is also required to approve vehicle purchases made by most state agencies after verifying the need for the purchase, but the policy defining minimum usage, which Fleet is supposed to consider when assessing a state agency's need to purchase vehicles, may be set too low. Therefore, Fleet may allow more purchases than are necessary. Finally Fleet's actions contributed to a $1.4 million deficit at June 30, 2004, in the fund that Fleet uses to operate and maintain parking lots for state employees.

Respectfully submitted,

Elaine M. Howle

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SUMMARY

RESULTS IN BRIEF

The Office of Fleet Administration (Fleet), within the Department of General Services (General Services), reported that it owned approximately 6,400 vehicles as of May 2005. From this motor pool, state agencies can rent Fleet's vehicles on a short- or long-term basis. Fleet also oversees vehicle purchases for most state agencies and sets policy for the proper use of state vehicles. In addition, Fleet operates parking lots for state employees.

Fleet has performed analyses indicating that its vehicle rental rates are competitive with those of commercial rental companies. However, although useful to some extent, these analyses do not fully demonstrate Fleet's cost-effectiveness because Fleet lacks assurance that the rates it used for comparison are similar to what state agencies typically pay under Fleet's contracts with commercial rental companies. A more comprehensive method of determining its cost-effectiveness would involve comparing the cost of operating its motor pool to the actual amount that the State would pay commercial rental companies—information that Fleet does not currently have.

Additionally, the terms of the current contracts Fleet has with commercial rental companies and the noncompetitive method it uses to select companies may not be in the State's best interest. In May 2005, Fleet's chief told us that Fleet is exploring new options related to contracting with commercial rental companies. These changes could secure lower rates for state agencies.

To enhance its competitiveness, Fleet might draw on opportunities that exist to reduce its costs and pass the savings on to the state agencies that use its vehicle rental services. Specifically, to ensure that the State does not own unnecessary vehicles, Fleet could establish a minimum-use requirement for the vehicles that state agencies rent on a long-term basis. Fleet could also set standards related to the idleness of its short-term rental vehicles, such as an acceptable number of days that vehicles can be idle, and assess its progress in meeting those standards. Currently, Fleet lacks such requirements and standards related to vehicle use.

Audit Highlights . . .

Our review of the Office of Fleet Administration (Fleet) within the Department of General Services found that:

- ☑ ***Fleet's analyses, indicating that its vehicle rental rates are competitive with those of commercial rental car companies, do not fully demonstrate its cost-effectiveness because Fleet lacks assurance that the commercial rates it used are similar to what state agencies typically pay.***
- ☑ ***The terms of the current contracts that Fleet has with commercial rental companies and the noncompetitive method it uses to select companies may not be in the State's best interest.***
- ☑ ***Fleet currently lacks a minimum-use requirement for vehicles that state agencies rent on a long-term basis as well as standards related to the idleness of its short-term rental vehicles, both of which could identify opportunities to reduce the number of vehicles in its motor pool.***

continued on next page . . .

- ☑ *Fleet is responsible for overseeing the vehicle purchases made by state agencies, but its policy defining minimum usage, which Fleet is supposed to consider when assessing a state agency's need to purchase vehicles, may be set too low.*
- ☑ *Fleet's actions contributed to a $1.4 million deficit at June 30, 2004, in the fund that Fleet uses to operate and maintain parking lots for state employees.*

Opportunities to further reduce costs may exist in Fleet's garage operations. Fleet has closed one of its garages and plans to close another. Before Fleet can make decisions about other garage closures, which could result in cost savings, it needs to begin gathering data to understand whether the repair and maintenance services that it provides are cost-effective. Currently, Fleet does not adequately track its garage employees' time to understand the cost of the services it provides.

According to its chief, Fleet is taking steps to establish standards that could identify opportunities to reduce the number of vehicles in its motor pool, such as a minimum-use requirement and standards for better assessing vehicle utilization and idle time. She also told us that Fleet is making an effort to better track the costs of performing repairs and maintenance on its vehicles and that by September 2005, she anticipates Fleet will implement a timekeeping system that will allow it to track the amount of time staff spend performing certain tasks.

Fleet's other responsibilities include overseeing the vehicle purchases made by most state agencies, setting policies for agencies' vehicle utilization, and operating parking lots that state employees use. Fleet is required to verify the need for vehicle purchases made by state agencies. Before it implemented a new process for approving vehicle purchases in 2003, Fleet sometimes approved purchase requests with no documented justification of need for the vehicles, and it still does not require agencies to explain in writing why any underutilized vehicles they might have cannot be used instead of the requested vehicles. Fleet's policy defining what constitutes an underutilized vehicle is the same as it was 20 years ago and may set a minimum-use standard that is too low. Because usage of current vehicles is one factor Fleet is supposed to consider when assessing the need to purchase more, setting a low expectation may cause Fleet to allow more purchases than are necessary. Fleet's chief has indicated that as of May 2005, Fleet was reviewing nationwide guidelines for public-sector fleet utilization and will revise the policy in the near future.

Fleet manages approximately 30 parking lots owned or leased by General Services and is responsible for administering state parking policies. As of June 30, 2004, the fund Fleet uses to operate and maintain the lots had a deficit balance of $1.4 million. Although various factors contributed to the deficit, we focused on two that were within Fleet's control. First, Fleet decided to enter into a costly agreement to purchase transit passes to shuttle parking clients to and from peripheral lots in Sacramento; and second, Fleet did not collect parking fees from more than 400 parking clients. As part of its efforts to address the fund deficit, Fleet plans to no longer pay the total cost of the shuttle service, but as of May 2005 it did not plan to collect lost revenue from the nonpaying parking clients.

RECOMMENDATIONS

In addition to rate comparisons, Fleet should compare the actual cost of operating its motor pool to the amount that the State would pay commercial rental companies. In doing so, Fleet should use the actual motor pool rental activity, such as the number of days or months that it rents vehicles by each vehicle type, and apply it to rates that the companies actually charge state agencies. Additionally, it should continue its efforts to obtain lower rates for commercial vehicle rental services by pursuing options for a more competitive contracting process.

To ensure that the vehicles in its motor pool are being used productively, Fleet should continue its efforts to establish a minimum-use requirement for the vehicles it rents to state agencies on a long-term basis. Additionally, for its short-term pool, it should continue to develop performance standards to better assess vehicle utilization and idle time.

Fleet should examine individual garages to determine whether it is cost-effective to continue operating them. Fleet should also continue with its plan to track the time of garage employees by task.

Fleet should continue with its plan to revisit its minimum-use requirement for agency-owned vehicles to determine if the minimum number of miles or days that state agencies must drive their vehicles should be higher. In addition, Fleet should require state agencies to explain in writing why any underutilized vehicles they might have could not be used instead of new vehicles they request.

Fleet should continue with its plan to stop paying the full cost of shuttling parking clients to and from peripheral lots. Additionally, Fleet should, to the extent possible, seek reimbursement from parking clients who have not paid for their parking spaces.

AGENCY COMMENTS

General Services agrees with our recommendations and intends to take appropriate actions to address them. ■

INTRODUCTION

BACKGROUND

Whether state agencies are required to visit health care facilities, patrol the State's highways, or perform some other state business, they could not efficiently carry out their duties without vehicles. To meet their transportation needs, state agencies may use a variety of methods, which include purchasing vehicles, renting them from commercial rental companies, or renting them from the State's motor pool, which is operated by the Office of Fleet Administration (Fleet) within the Department of General Services (General Services).

Services Provided by the Office of Fleet Administration

- Garage services
    - Vehicle rentals
    - Maintenance and repair services for Fleet's motor pool and agency-owned vehicles
- Vehicle inspection services
- Vehicle purchase request reviews
- Vehicle auction services
- Travel programs
- Parking and commute programs

As of May 2005, Fleet operated six garages and reported that it owned approximately 6,400 vehicles. From its garages, Fleet rents its vehicles to state agencies on short- and long-term bases, depending on agency need. Fleet generally considers a vehicle rented for more than two weeks to be a long-term rental. In addition to operating the motor pool, Fleet issues policies to ensure the proper use and maintenance of state-owned mobile equipment, such as cars, trucks, vans, and sport utility vehicles, and oversees vehicle purchases for most state agencies. Among other services Fleet performs for state agencies is entering into contracts with airlines and commercial vehicle rental companies for times when motor pool vehicles are not available or accessible. The services that Fleet provides are listed in the text box.

For fiscal year 2004–05, General Services estimated that it would cost Fleet $39 million to operate the motor pool, which includes personnel costs to run the garages and maintain the vehicles, general costs such as fuel, and the cost of vehicle depreciation. Fleet recovers the motor pool's expenses through the rental rates it charges state agencies.

To ensure that state agencies have transportation options when Fleet's vehicles are not available, such as during peak demand days, or in locations without access to Fleet garages, such as airports, Fleet has contracts with seven commercial rental companies. Each contract establishes the maximum rate the company can charge. The maximum rate includes the vehicle rental rate, unlimited mileage, insurance, and additional fees, such as airport access fees, but does not include sales taxes or refueling charges.

FLEET'S PROCESS FOR SETTING RENTAL RATES

To set Fleet's rates for vehicle rentals, General Services' Office of Fiscal Services, in conjunction with Fleet, estimates the budget and staffing necessary to operate the motor pool. For example, the Office of Fiscal Services annually calculates the costs attributable to the motor pool, such as salaries, benefits, operating expenses, and overhead. It then divides those costs by estimated billable outputs, which are the number of vehicles in the motor pool by vehicle type, the estimated annual mileage for each vehicle type, and the estimated rental days or months for each vehicle type. The result is a structure of rates that Fleet would need to charge to recover its total budgeted expenses and break even. Before General Services' management approves the final rates, it considers other factors, such as whether the rates are competitive with commercial rental rates. In fiscal year 2004–05, Fleet charged, depending on vehicle type, between $18 and $45 per day plus 22 to 23 cents per mile for short-term vehicle rentals and between $230 and $450 per month and 22 to 23 cents per mile for long-term rentals.

VEHICLE PURCHASE BAN

In February 2003, the Governor's Office issued a memorandum to state agencies banning vehicle purchases, except for vehicles for which there was an urgent need to preserve the health and safety or security of the public. Additionally, the memorandum directed Fleet to idle 600 vehicles and conduct assessments on how to further reduce the number of vehicles in the motor pool. To implement this mandate, Fleet selected vehicles for retirement by age and mileage, as well as retiring those that needed repairs that were not cost-effective to perform. Subsequently, the pool has seen further reductions as Fleet has retired many vehicles without replacing them because of the ban on new vehicle purchases. In total, Fleet reported that it reduced its motor pool by more than 1,000 vehicles by disposing of approximately 1,180 vehicles and acquiring nearly 150 vehicles between February 2003 and December 2004. As of May 2005, the vehicle purchase ban was still in effect.

Although the ban on vehicle purchases has had an effect on Fleet's cash position, Fleet's rates have not decreased. A portion of the revenue that Fleet receives from state agencies is used to recover depreciation on vehicles in the motor pool. Fleet recovers depreciation expenses on vehicles to generate revenue so that it can acquire replacement vehicles. Fleet has continued to generate this revenue in anticipation of acquiring new vehicles when the purchase ban is lifted because it believes the age and condition of the motor pool will necessitate new vehicle purchases. This situation contributed to Fleet's cash increasing by $21 million between June 30, 2002, and June 30, 2004. However, as the motor pool ages, the improvement in Fleet's cash position is offset by the declining value of its vehicles.

FLEET'S EXPANDING RESPONSIBILITIES

In the last few years, changes in state law have expanded Fleet's responsibilities. State law generally prohibits a state agency from using an appropriation to acquire a motor vehicle until General Services has investigated and established the necessity of the transaction. However, before January 2005, this provision of state law did not apply to the California State University (CSU). Chapter 926, Statutes of 2004, which was enacted in September 2004 and became effective January 1, 2005, requires CSU to obtain approval from General Services before making a vehicle purchase. Fleet is the office within General Services that is responsible for approving vehicle purchases, and Fleet's chief expects that adding CSU will increase its workload considerably.

Information That General Services Is Required to Collect and Compile Annually

- The number of passenger-type motor vehicles, sport utility vehicles, four-wheel-drive trucks, alternative fuel vehicles, and hybrid vehicles that the State purchased or leased during the year, and the number of these vehicles the State owned or leased as of December 31 of each year.
- The number of sport utility vehicles and four-wheel-drive trucks that are alternative fuel or hybrid vehicles that the State purchased or leased during the year, and the number of these vehicles it owned or leased as of December 31 of each year.
- The total dollars the State spent on passenger-type vehicle purchases and leases, categorized by sport utility vehicle and nonsport utility vehicle and, within each of these categories, by alternative fuel, hybrid, and other.
- The justification provided for purchases or leases of all sport utility vehicles and four-wheel-drive trucks, and the specific state agency responsible for the purchase or lease.

In October 2003, Chapter 737, Statutes of 2003, was enacted, requiring General Services, beginning no later than January 1, 2005, to annually compile and maintain information on the nature of vehicles that the State owns or leases and, as soon as practicable, to post the information on its Web site. General Services assigned Fleet to gather the information that the law requires, as listed in the text box. Although in the past General Services gathered some information on state-owned vehicles for insurance purposes and to set rates for its inspection services program, it did not gather all of the information that the law now requires, and it did not gather the information from all state agencies. State agencies have submitted information on the vehicles they own or lease, which Fleet has posted on its Web site. Fleet attempted to use the state-owned motor vehicle data from the Department of Motor Vehicles to verify this information but found that it could not rely on the data. In the future, Fleet intends to require the heads of state agencies that annually report this information to certify that the information is true and that it is verified by the state agencies' financial records.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits conduct an audit of state-owned vehicles with a focus on the cost-effectiveness of the garages that Fleet operates. Specifically, the audit committee asked us to do the following:

- Determine whether General Services has a process in place to measure the cost-effectiveness of its garages and fleet of rental vehicles and, to the extent possible, determine whether it is cost-effective for the State to own, maintain, and rent its vehicles and own and operate its garages.

- To the extent possible, evaluate the potential for cost savings resulting from no longer having Fleet own and maintain vehicles and the potential savings from the consolidation and/or disposition of state-operated garages.

- Review and evaluate General Services' policies and procedures for ensuring the accountability of state vehicle purchases, including the controls in place to monitor vehicle purchases and determine whether other state agencies purchase motor vehicles in accordance with applicable requirements and in the best interest of the State.

To understand how Fleet measures the cost-effectiveness of owning and operating its garages and its fleet of rental vehicles, we interviewed General Services' staff and reviewed comparisons of Fleet's rates to those of its competitors. To understand whether the amounts to which Fleet compared its rates were reasonable, we reviewed information related to the amounts that state agencies pay when renting vehicles from commercial rental companies that contract with the State and spoke with individuals representing some of those companies.

We also obtained vehicle rental information from Fleet's database to analyze the frequency with which Fleet's garages rented vehicles. We tested this data for reliability and concluded that the data related to vehicle rentals were sufficiently reliable for the purposes of our review. We obtained accounting reports, which we tested and found to be sufficiently reliable for the purposes of our analysis, and calculated the costs of operating the motor pool. We could not compare Fleet's costs to the overall amount the State would pay if it were using alternatives, because, as discussed in Chapter 1, this amount is not known.

Although having state agencies own vehicles that they would otherwise have rented from Fleet is a possible alternative to Fleet's motor pool, assigning vehicles to individuals or state agencies is likely to increase the number of state-owned vehicles. This alternative could also result in greater costs because vehicles assigned to individuals or state agencies are more likely to sit idle. Therefore, we did not examine this alternative.

To understand whether it is cost-effective for Fleet to maintain its own vehicles versus using private repair shops and whether consolidation or closure of one or more garages that perform maintenance services is advisable, we interviewed Fleet staff and reviewed relevant documentation. We learned that Fleet does not account for all garage revenues and expenses by their respective garages and does not determine how much time garage employees spend performing various repair and maintenance services. Therefore, neither Fleet nor we could determine if specific garages lose money, nor could we make meaningful comparisons between how much it costs Fleet to perform repair and maintenance services and how much it would cost to repair and maintain the motor pool vehicles using commercial repair shops. However, we examined the analyses Fleet prepared when it decided to close two garages and identified the factors that Fleet would need to know before it makes decisions to consolidate or close additional garages.

To identify potential efficiencies and areas where Fleet may be able to reduce its costs, we reviewed Fleet's oversight of fuel card purchases that state agencies make when they rent Fleet's vehicles. This allowed us to determine if Fleet's procedures are adequate to ensure that charges are appropriate and allowable. Through this review, we identified a control issue that we did not include in this report for security reasons; instead, we addressed our concerns to Fleet's management in a separate letter.

To assess the adequacy of Fleet's policies and procedures for approving requests for state agencies to purchase their own vehicles, we reviewed related laws and Fleet's process for reviewing the requests. To determine whether Fleet was following its policies to determine the need for vehicle purchases, we selected a total of 60 vehicle purchase requests that occurred during fiscal years 2001–02 through 2003–04 and analyzed whether Fleet generally followed its procedures for reviewing purchase requests. Finally, we examined the policy on minimum vehicle use, which state agencies must report on and which Fleet considers when reviewing state agencies' vehicle purchase requests. In our examination, we determined how Fleet set the policy and compared its policy to those of other governments and industry standards.

We also examined the self-sufficiency of Fleet's parking fund by examining financial statements and Fleet's cost allocations. We interviewed staff to understand their perspectives related to parking fund losses, including findings from Fleet's analyses. ■

CHAPTER 1

The Office of Fleet Administration Could Better Measure the Cost-Effectiveness of Its Motor Pool and Identify Areas to Reduce Costs

CHAPTER SUMMARY

To help state agencies meet their transportation needs, the Office of Fleet Administration (Fleet), within the Department of General Services (General Services), provides short- and long-term vehicle rental services. When the State makes vehicles available to multiple users through Fleet's rental services rather than assigning vehicles to individuals or state agencies, it maximizes the use of the vehicles and can perform its business with fewer vehicles. Fleet charges state agencies based on the number of days they use the vehicles and the number of miles they drive.

Fleet has performed analyses indicating that its rates are competitive with the rates that commercial rental companies offer the public. Although they help to ensure that its rates do not exceed those of its competitors, Fleet's analyses have only limited usefulness for demonstrating cost-effectiveness because Fleet lacks assurance that the rates state agencies typically pay under Fleet's contracts are similar to these public rates. A more comprehensive method of determining Fleet's cost-effectiveness would compare its costs with how much state agencies typically pay when using contracted rental companies. However, Fleet does not currently require commercial rental companies that contract with the State to provide reports that it can use to determine the average daily, weekly, or monthly rates that state agencies actually pay. Additionally, the terms of the current contracts that Fleet has with commercial rental companies and the noncompetitive method of selecting companies may not be in the State's best interest. In May 2005, its chief told us that Fleet is exploring new options for its commercial rental contracts that could secure lower rates for state agencies.

Meanwhile, Fleet could take advantage of opportunities to reduce costs to the State. Specifically, to ensure that the State does not own unnecessary vehicles, Fleet could establish a minimum-use requirement for vehicles that it rents to state agencies on a long-term basis. Moreover, by increasing its attention to the idle vehicles in its short-term motor pool and setting standards for their use, Fleet could avoid costs related to owning too many vehicles. Fleet could also improve its ability to make sound decisions about rates and the composition of its motor pool if it tracked the costs of owning different types of vehicles.

Opportunities to further reduce costs may exist in Fleet's garage operations. Fleet has closed one of its garages and plans to close another. Before Fleet can make decisions about additional garage closures that could result in cost savings, it must begin gathering data to understand whether the cost-effectiveness of the repair and maintenance services it provides at its garages justifies keeping the garages open. Because Fleet lacks information on the costs of providing those services, it cannot fully assess whether commercial repair shops could provide the services at a lower cost to the State. According to the chief of Fleet, it is taking steps to establish standards that could identify opportunities to reduce the number of vehicles Fleet owns and to determine ways to better track the costs of owning various vehicle types and performing repairs and maintenance on its vehicles.

FLEET'S ANALYSES OF ITS COST-EFFECTIVENESS INDICATE THAT IT IS COMPETITIVE WITH EXISTING ALTERNATIVES, BUT ITS ANALYSES ARE LIMITED

Fleet has compared the rates of commercial rental companies to its own rental rates as a method of measuring the cost-effectiveness of its motor pool. Although these analyses indicate that Fleet is competitive, they are limited because Fleet lacks assurance that the commercial rates are representative of what state agencies typically pay. A more comprehensive method of determining Fleet's cost-effectiveness requires information that it currently does not gather.

Fleet Rents Vehicles on Short- and Long-Term Bases

Fleet reported that it owned approximately 6,400 vehicles as of May 2005.

As of May 2005, Fleet operated six garages and reported that it owned approximately 6,400 vehicles, which it rents to state agencies on both short- and long-term bases. Fleet's rental rates comprise a fixed charge and a mileage charge. The fixed rate for short-term rentals is a daily charge, and for long-term rentals it is a monthly charge. Fleet's rates include the cost of fuel as well as insurance premium assessments that Fleet must pay to the State Motor Vehicle Insurance Account, an account maintained by General Services' Office of Risk and Insurance Management. Because they are available to multiple state agencies, Fleet's vehicles are likely used more than if they were assigned to a single individual or state agency, thus resulting in cost-efficiencies that a state agency might not obtain on its own.

A state agency can rent one of Fleet's vehicles on a long-term basis in lieu of purchasing a vehicle. Agencies may find it easier to budget and pay for transportation expenses on a continuous basis rather than having to spend funds intermittently to buy vehicles. Renting vehicles on a long-term basis instead of purchasing vehicles also saves state agencies from having to go through the vehicle purchase process. Because Fleet's long-term rental rates include the costs of maintenance and repairs, state agencies that use Fleet's services are spared from budgeting for unexpected repair costs or devoting staff to manage vehicles.

Without Fleet, state agencies would have to use other alternatives, such as renting vehicles from commercial rental companies or reimbursing employees for using their personal vehicles.

Without Fleet, state agencies would have to use other alternatives, such as renting vehicles from commercial rental companies or reimbursing employees for using their personal vehicles. The State contracts with commercial rental companies to supplement Fleet's services by providing vehicles when Fleet cannot meet an agency's needs or when a vehicle is needed where no Fleet garage is nearby, such as at an airport. The commercial rental companies that contract with the State charge daily, weekly, and monthly rates for vehicles, which also include insurance. The commercial rental companies do not charge fees for miles driven; however, state agencies have to pay for their own fuel when renting from them.

If employees use their personal vehicles, the State reimburses them 34 cents for each mile they drive, which is intended to cover the costs associated with operating the vehicle, including fuel, depreciation, maintenance, and insurance. Although in some instances employee reimbursement could be more cost-effective than other methods of transportation, it is not a viable alternative to the motor pool because the State cannot require its employees to use their personal vehicles for transportation unless it is a formal condition of their employment. Moreover, for some uses, it is not practical to substitute one of Fleet's vehicles with an employee-owned vehicle or a vehicle rented from a commercial rental company. For example, Fleet's records indicate that a considerable number of its vehicles are rented by state law enforcement agencies for undercover work. The security and privacy of law enforcement officers could be compromised if they used their personal vehicles instead of state-owned vehicles or if commercial rental companies could not ensure the secrecy of the license plates on undercover vehicles.

Past Cost-Effectiveness Analyses of Fleet's Operations Have Focused on Its Competitiveness With Commercial Rental Companies

The commercial rental rates that were used in analyses of Fleet's competitiveness were generally either rates that the companies offered to the general public or the maximum rates that the companies agreed to in their contracts with Fleet.

To measure its cost-effectiveness, Fleet periodically compares its rates to those of commercial rental companies. The most recent comparison that Fleet performed was in early 2005. In fall 2004, General Services' Office of Audit Services performed a similar analysis of Fleet's competitiveness. The commercial rental rates that Fleet and the Office of Audit Services used in their analyses were generally either rates, obtained through the Internet or by telephone or e-mail, that the companies offered to the general public at individual locations in the State or the maximum rates that the companies have agreed to in their contracts with Fleet.

Unlike the commercial rental companies, Fleet charges a mileage fee that includes the cost of fuel. Therefore, Fleet applied assumptions to represent a typical rental situation. For instance, in its analyses of long-term rentals, Fleet assumed that a vehicle would be driven 1,200 miles in a month to calculate how much it would charge for the fixed rental fee and the mileage fee. It used the same 1,200 miles to estimate the cost of fuel that state agencies would incur if they rented a commercial rental vehicle.

When Fleet compared the two amounts for each vehicle type, the comparisons indicated that its rates are competitive with those that commercial rental companies offer and that state agencies save money by using Fleet's services when they are available. For example, in its most recent analysis, Fleet estimated that if a state agency rented a compact vehicle from a commercial rental company for a month and drove 1,200 miles, it would spend at least $839, of which $270 represented Fleet's estimate of insurance purchased from the commercial rental company. Under the same circumstances, Fleet determined that the state agency would spend only $506 when using Fleet.

In its fall 2004 analysis, the Office of Audit Services also reviewed invoices that General Services paid for 53 commercial rental transactions and compared these actual payments to the amount that Fleet would have charged given the same number of rental days and miles driven. The majority of the transactions in the analysis involved one rental company at two airport locations in the State—Ontario and Burbank—and generally indicated that Fleet's charges would have been less than the amount paid to the commercial rental company.

Fleet can offer lower prices to state agencies than commercial rental companies can for various reasons. For example, Fleet acknowledges that the age of its vehicles contributes to its lower prices. According to an individual representing two commercial rental companies with which Fleet contracts, his companies typically maintain vehicles for about five months and odometer readings of 10,000 to 18,000 miles. Fleet's policy is to replace its vehicles at 120,000 miles. Additionally, according to Fleet, the age standard it typically uses is seven years, at which time Fleet will determine whether it is cost-effective to continue to keep the vehicle. Fleet also contends that another reason it can offer lower rates than commercial rental companies is that it does not have a profit motive.

Fleet's Method of Measuring Its Cost-Effectiveness Has Limitations

Although comparing its rates to those offered by commercial rental companies is useful to ensure that Fleet is not charging more than its competitors, the usefulness of such comparisons in demonstrating cost-effectiveness is hampered because the commercial rental rates that Fleet used in its comparisons do not necessarily reflect what state agencies would actually pay. A more comprehensive way to measure Fleet's cost-effectiveness would be to compare Fleet's costs to operate the motor pool to how much the State would spend using commercial rental companies, considering the rates that the companies typically charge the State.

The commercial rental rates that Fleet used in its comparisons do not necessarily reflect what state agencies would actually pay.

Fleet's analyses compare its rates to those that commercial rental companies offer the public. However, Fleet lacks assurance that the rates state agencies typically pay are similar to the companies' public rates. State agencies are generally required to rent vehicles using the contracts that Fleet has with commercial rental companies; therefore, state agencies would pay the rates offered under the terms of Fleet's contracts. These contracts include specific requirements about what the rental charge must include. Irrespective of the state agencies' ability to rent vehicles using rates offered to the public, the rates used for comparison also did not consider the State's ability to obtain volume discounts. The quotes were for a single vehicle rental, not the thousands of vehicle rentals that would be required to supplant Fleet's services. Moreover, the rate quotes are specific to individual locations at one point in time, and Fleet has no assurance that the rate is available statewide. Commercial rental companies that contract with the State charge various fees, and Fleet does not have information to determine the amount that state agencies typically pay using the contracts. Further, the fall 2004 analysis prepared by the Office of Audit Services provides some information on what General Services' employees paid for short-term rentals during a certain period of time at certain locations. However, it does not provide information as to what various state agencies pay throughout the State on an ongoing basis.

Maximum contract rates do not provide for a meaningful comparison because commercial rental companies do not typically charge such high rates.

In addition to comparing its rates with those available to the public, analyses of Fleet's rates before early 2005 also compared Fleet's rates to the maximum rates allowed under its contracts with commercial rental companies. However, the maximum contract rates do not provide for a meaningful comparison because, as Fleet acknowledges, commercial rental companies do not typically charge such high rates. In fact, to be competitive with other rental companies, the companies that Fleet has under contract can sometimes charge significantly less than the contract rates. For example, one transaction we reviewed that occurred in fiscal year 2004–05 showed that the rental company charged $39 per day for a compact car, which is 40 percent less than its maximum contract rate of $65 per day for a compact car. Fleet's assistant chief told us that in its early 2005 analysis, Fleet used only the commercial rates offered to the public because these rates were less than the contract rates, and it did not want to be perceived as trying to make comparisons in the most favorable manner to Fleet. However, an invoice that we reviewed indicated that the rates a state agency pays for a vehicle under Fleet's contracts with the rental companies can still be less than the public quotes that Fleet obtained.

Fleet's contracts with commercial rental companies require them to submit quarterly data to Fleet that could help it determine how much the companies charge state agencies for their services. However, the reports that Fleet receives do not currently identify the average monthly, weekly, or daily rental rates the companies charge by vehicle type. If Fleet required its contractors to report information that would help it determine how much state agencies typically pay, those amounts would be a better basis of comparison.

Although measuring its competitiveness with commercial companies serves a useful purpose for Fleet, a more comprehensive way Fleet could measure its cost-effectiveness would be to compare how much it actually costs to operate the motor pool—either in its entirety or by specific segments, such as short-term versus long-term rentals—to the amount that the State would pay using similar vehicles and paying rates that commercial rental companies actually charge state agencies. Fleet would need to use actual information, such as the number of days or months that it rents vehicles by each vehicle type, rather than hypothetical situations. Using this method would be more effective because, as described later, Fleet's rates do not necessarily reflect how much it costs to operate a specific vehicle type. We determined that during fiscal year 2003–04, it cost Fleet more than $36 million to operate the motor pool; however, without information regarding what state agencies typically pay, neither Fleet nor we can determine if Fleet's motor pool is the most cost-effective use of the State's resources or if alternatives to Fleet would cost less.

EXISTING CONTRACTS RAISE QUESTIONS AS TO WHETHER THEY ARE IN THE BEST INTEREST OF THE STATE

As previously described, Fleet enters into contracts with commercial rental companies to supplement Fleet's services. However, we question whether the contract terms and the noncompetitive method that Fleet uses to select commercial rental companies result in contract rates that are as beneficial to the State as they could be. According to Fleet's chief, the intent of the contracts is to ensure that state employees renting vehicles from commercial rental companies are protected against companies charging them whatever they want. However, as discussed previously, the amounts that commercial rental companies actually charge can be significantly lower than the maximum rates specified in the contracts.

According to Fleet's chief, the intent of the contracts is to ensure that state employees renting vehicles from commercial rental companies are protected against companies charging them whatever they want.

We spoke to individuals representing five of the seven commercial rental companies that contract with Fleet. An individual representing two of the companies said that his companies rent at rates lower than the contract for various reasons, including competition among rental companies and the need to stimulate demand for rentals to reduce the number of idle vehicles on their lots. He also stated that Fleet requires the maximum rates in the contracts to encompass all fees such as airport or county fees and that this must be carefully considered as these fees are out of his companies' control. Further, he said that the contract rates have a large cushion built in to protect against vehicle price increases that could occur over the potentially long contract term. Although its contracts are for one year, Fleet can twice exercise the option to extend a contract for one year. A commercial rental company cannot request an increase to the contract rate until the second contract extension, and that increase cannot exceed the consumer price index for the previous year.

Because there can be a wide gap between the current contract maximum rates and the amount that commercial rental companies actually charge state agencies, we question whether the contract rates actually provide the protection to the State that they are intended to provide.

Because there can be a wide gap between the current contract maximum rates and the amount that commercial rental companies actually charge state agencies, we question whether the contract rates actually provide the protection to the State that they are intended to provide, which is to prevent state employees from paying high rental rates. We recognize that there may be benefits, such as administrative efficiencies, that result from having options to extend the contracts. However, we believe that Fleet should evaluate the extent to which such contract extensions may contribute to maximum contract rates that are significantly higher than the rates that could be charged.

Fleet also requires commercial rental companies to insure the vehicles while state employees drive them, which raises rates. Fleet does not know if this requirement is in the State's best interest because it has not conducted an analysis and could not tell us the cost that insurance adds to commercial rental rates in Fleet's contracts. The contract terms to which commercial rental companies agreed specified that the companies would provide insurance. Consequently, the companies did not provide rates without insurance. General Services' Office of Risk and Insurance Management told us that requiring the commercial rental companies to provide insurance coverage in the rental contracts is the preferred method of risk transfer. However, neither Fleet nor the Office of Risk and Insurance Management performed studies to support that this was the best option. For example, neither compared the cost of insuring cars through the commercial rental companies to the costs of other methods, such as self-insuring. If the State is able to self-insure commercially rented vehicles or purchase insurance for less than what it pays through its existing contracts, the rates that commercial rental companies offer the State could decrease significantly.

While still renting under Fleet's contract with one rental company, at least one state agency has an agreement with the company to guarantee lower rates than those specified under the company's contract with Fleet. Such agreements indicate that a more competitive process of selecting contractors may result in lower rates to the State. Fleet had contracts with seven commercial rental companies as of May 2005. Because Fleet does not offer the State's business exclusively to one or two companies, contractors may not have an incentive to offer a lower rate during the contract proposal process. One state agency recently obtained guaranteed rates from a commercial rental company that are less than the maximum rates that the company guaranteed in its contract with Fleet. For example, for an intermediate-sized car, the rate is approximately 31 percent less than the contract maximum.

According to Fleet's chief, in the past a single low-bid vendor was used for commercial rental vehicles, but often traveling state employees would have to get their rental vehicles from other companies once they reached their destinations because the vendor often would not be able to handle the volume and would run out of vehicles. The chief believes that having a variety of vendors has eliminated this problem. However, it appears that the State's efforts to address the issue of availability of service have contributed to an environment in which the State is not taking full advantage of the volume of its vehicle rentals.

Fleet acknowledges that a more competitive method of selecting commercial rental companies that would not limit availability of services could result in lower rates.

Fleet acknowledges that a more competitive method of selection that would not limit availability of services could result in lower rates. In May 2005, the chief told us that Fleet is exploring a new option for state travelers that would employ competitively bid rental contracts with awards made to a primary and secondary commercial rental company. She also said that Fleet plans to contract for the base cost of vehicles (the cost before additional fees such as airport fees) to recognize the fees that vary by location.

FLEET COULD IDENTIFY AREAS FOR COST REDUCTION

Because it operates on a cost reimbursement basis, Fleet could enhance its competitiveness and lower its rates by reducing its costs. Among the possible cost-cutting moves Fleet could make are eliminating excess vehicles by improving overall utilization or identifying vehicles that are not cost-effective to own; closing garages that cost more to operate than the cost of using alternative methods of transportation, such as vehicles from commercial rental companies; and using commercial vendors to perform repairs and maintenance when it is less expensive to do so.

Fleet Could Better Ensure That Its Vehicles Are Being Used Productively

Effective management of a motor pool requires maximum use of vehicles at the lowest possible cost. Industry best practices call for fleet managers to set performance measures, such as standards for vehicle utilization, which exist to minimize the number of vehicles in the motor pool and their related operating costs. However, Fleet lacks such performance measures for its motor pool. As a result, Fleet is missing an opportunity to reduce the costs of its operations.

Fleet Has Not Established a Minimum-Use Requirement for Vehicles It Rents on a Long-Term Basis

Although Fleet has established a minimum-use policy to ensure that state agencies efficiently operate the vehicles they own, it has no such requirement for vehicles that state agencies rent from the motor pool on a long-term basis. The minimum-use policy for agency-owned vehicles requires state agencies to use their vehicles a minimum of 4,000 miles or 70 percent of workdays every six months. Other government-operated motor pools apply minimum-use requirements to their vehicles. For example, the federal government recommends that vehicle utilization be considered because it believes utilization is of critical importance in the management of a vehicle fleet and represents the single most significant opportunity for reducing costs. Therefore, the federal government's General Services Administration, which operates one of the largest fleets of its kind in the world, recommends that agencies renting its vehicles meet its minimum-use guidelines and justify vehicle retention when they do not meet the guidelines.

Without a utilization policy for vehicles rented on a long-term basis, Fleet cannot ensure that its motor pool is used optimally.

Without a utilization policy for vehicles rented on a long-term basis, Fleet cannot ensure that its motor pool is used optimally. Such rentals constitute most of the motor pool—almost 90 percent at the time Fleet was developing its fiscal year 2004–05 rental rates. Using the mileage portion of the minimum-use requirement Fleet has established for the vehicles state agencies own, we reviewed the usage of the vehicles Fleet rented on a long-term basis during fiscal year 2003–04 to determine if those vehicles met that requirement. Fleet's data indicate that in fiscal year 2003–04, at least 27 percent of the vehicles in the long-term-rental group were not driven the number of miles set as the minimum required for agency-owned vehicles. Because state agencies that rent vehicles on a long-term basis report only mileage information, we could not determine whether the vehicles that did not meet the mileage requirement were driven 70 percent of workdays. The policy for agency-owned vehicles permits state agencies to forgo the mileage requirement in these instances.

The purpose of a minimum-use requirement for long-term vehicle rentals is to ensure that motor pool services are delivered economically and efficiently. By not requiring state agencies to meet a minimum-use requirement for long-term rentals, Fleet may in effect be allowing state agencies that cannot justify vehicle purchases based on usage to obtain vehicles by renting them from Fleet on a long-term basis. Since the function of a minimum-use requirement is to minimize costs, the absence of such a policy can result in higher costs to the State. Further, as discussed in Chapter 2, we recognize that measuring mileage is important in ensuring that state agencies use vehicles to their maximum potential but is not an appropriate standard in all situations. Nevertheless, identifying vehicles that are not being used a minimum number of miles would be beneficial in assessing the extent to which other factors should be taken into consideration.

According to Fleet's chief, previous Fleet management decided not to establish a minimum-use policy for the motor pool, and current management is now revisiting that decision. In May 2005, the chief told us that Fleet is putting in place a method for collecting and analyzing data for a minimum-use requirement that will be identical to the requirement for agency-owned vehicles. Fleet expects to make its policy effective in July 2005.

Fleet Lacks Performance Standards to Minimize Idle Vehicles in Its Short-Term Pool

In addition to not establishing a minimum-use requirement for its long-term rentals, Fleet has not developed performance measures to determine if the vehicles that it rents on a short-term basis are idle an excessive number of days. Best practices indicate that fleet managers should set policies and develop performance measures to ensure that their fleets consist of the appropriate number of vehicles in the appropriate composition.

Best practices indicate that fleet managers should set policies and develop performance measures to ensure that their fleets consist of the appropriate number of vehicles.

Fleet's chief told us that Fleet reallocates vehicles from garages that have underutilized vehicles if there is demand for the vehicles in other garages. However, Fleet staff do not move vehicles based on established criteria, such as an acceptable percentage of days that vehicles can be idle. If Fleet does not establish policies or closely monitor idle activity, it runs two risks. First, if Fleet's garages have too few vehicles, customers who are unable to obtain rentals from Fleet may turn to commercial rental companies, which can result in higher costs to the State. Second, if vehicles go unused, the State is unnecessarily incurring expenses on vehicles that it does not need.

When setting its budget for fiscal year 2004–05, Fleet used actual rental information from fiscal year 2003–04 to estimate that its short-term vehicles were used an average of 12.5 days per month, which equals 150 days per year. Considering that there were 248 workdays in fiscal year 2003–04, this estimate indicates that on average, Fleet's vehicles were driven 60 percent of available workdays and were idle the remaining 40 percent of the time. Fleet's policy for agency-owned vehicles is that, unless they are driven the required number of miles, the vehicles must be driven 70 percent of workdays. This means they must not be idle more than 30 percent of workdays. If Fleet had a standard in fiscal year 2003–04 for its short-term pool that matched the requirement for agency-owned vehicles, Fleet's estimate indicates that on average its vehicles would not have met the standard.

The chief of Fleet told us in May 2005 that it is currently developing performance standards to better assess utilization and idle time. Once Fleet establishes these standards, it can monitor its performance and identify opportunities to reduce the number of vehicles it owns. However, Fleet must ensure that it bases its standards on reasonable assumptions that consider the best interest of the State. One assumption might be the number of vehicles Fleet should place at each garage to minimize the number of idle vehicles without turning away so many vehicle requests that the cost of alternative methods of transportation exceeds what it would cost the State to own additional vehicles. The chief also told us that to improve the number and quality of reports, General Services has recently purchased a reporting tool that uses the information in its database. General Services' improved reports should provide Fleet with the more detailed information it needs to make decisions regarding its vehicles. Until Fleet starts monitoring data on idle vehicles in its garages and comparing its progress to established standards, it cannot effectively identify overcapacity and wasted resources. Additionally, Fleet is missing opportunities to increase utilization by redistributing cars to areas where demand is greater.

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Analyzing Costs by Vehicle Type Could Identify Opportunities to Reduce Costs

Fleet does not analyze its costs by vehicle type and therefore cannot readily identify vehicles that are not cost-effective to own. It is important for Fleet to understand its costs to manage the motor pool and ensure that the motor pool's composition of vehicles is not costing the State more than is necessary. Potentially, Fleet could reduce its costs by limiting the types of vehicles that it has available.

Fleet's rates for individual vehicle types are not an indication of its costs to own that vehicle type.

As previously discussed, although Fleet compares its rates by vehicle type to those of commercial rental companies to determine if state agencies could rent vehicles at prices lower than Fleet's, that comparison is not the same as comparing Fleet's actual cost to operate the vehicle type to the cost of alternatives. Fleet's rates for individual vehicle types are not an indication of its costs to own that vehicle type. Fleet's rates are set to recover the total cost of its operations, without consideration of the actual amount Fleet spends to own specific vehicle types.

If Fleet finds that the cost of owning a specific vehicle type significantly exceeds the rate it charges, it could make decisions to align the rate with its costs. Further, if Fleet determines that owning a specific vehicle type costs more than state agencies will spend by using alternatives to the motor pool, Fleet could make decisions to eliminate or limit those types of vehicles. We recognize that the decisions Fleet makes regarding the composition of its motor pool may consider other factors, such as the needs of state agencies for particular types of vehicles. However, if Fleet analyzed its costs by vehicle type, it could better ensure that it is meeting the needs of the state agencies it serves in the most cost-effective manner.

According to its chief, as of May 2005, Fleet was working to develop a feasibility study report for a fleet management system. She expects this system to provide reports that will include information to help Fleet calculate costs by vehicle type, such as fuel use by vehicle type and repair and maintenance costs by vehicle type. The chief also told us that Fleet was in the process of incorporating additional performance measures related to costs by vehicle type to identify other opportunities for cost savings.

Fleet Does Not Periodically Assess the Cost-Effectiveness of Individual Garages

Although Fleet operates several garages throughout the State, it does not ensure that the individual garage locations are the most effective use of its resources. If it conducted periodic assessments of each garage's operations, Fleet could evaluate whether the garages currently in operation cost the State more money than other alternatives, such as using commercial rental companies or repair shops.

As of May 2005, Fleet operated six garages. As Figure 1 shows, these garages are located throughout the State: two in Southern California, two in the Bay Area, one in the lower Central Valley, and its main garage in downtown Sacramento. The garages offer a combination of services that may include short- and long-term vehicle rentals; repair and maintenance for both Fleet-owned and agency-owned vehicles; and other services, such as prepaid daily parking for state employees. Fleet recently consolidated its Van Nuys and Los Angeles garages and as of May 2005 planned to consolidate its San Francisco and Oakland garages by the end of June 2005.

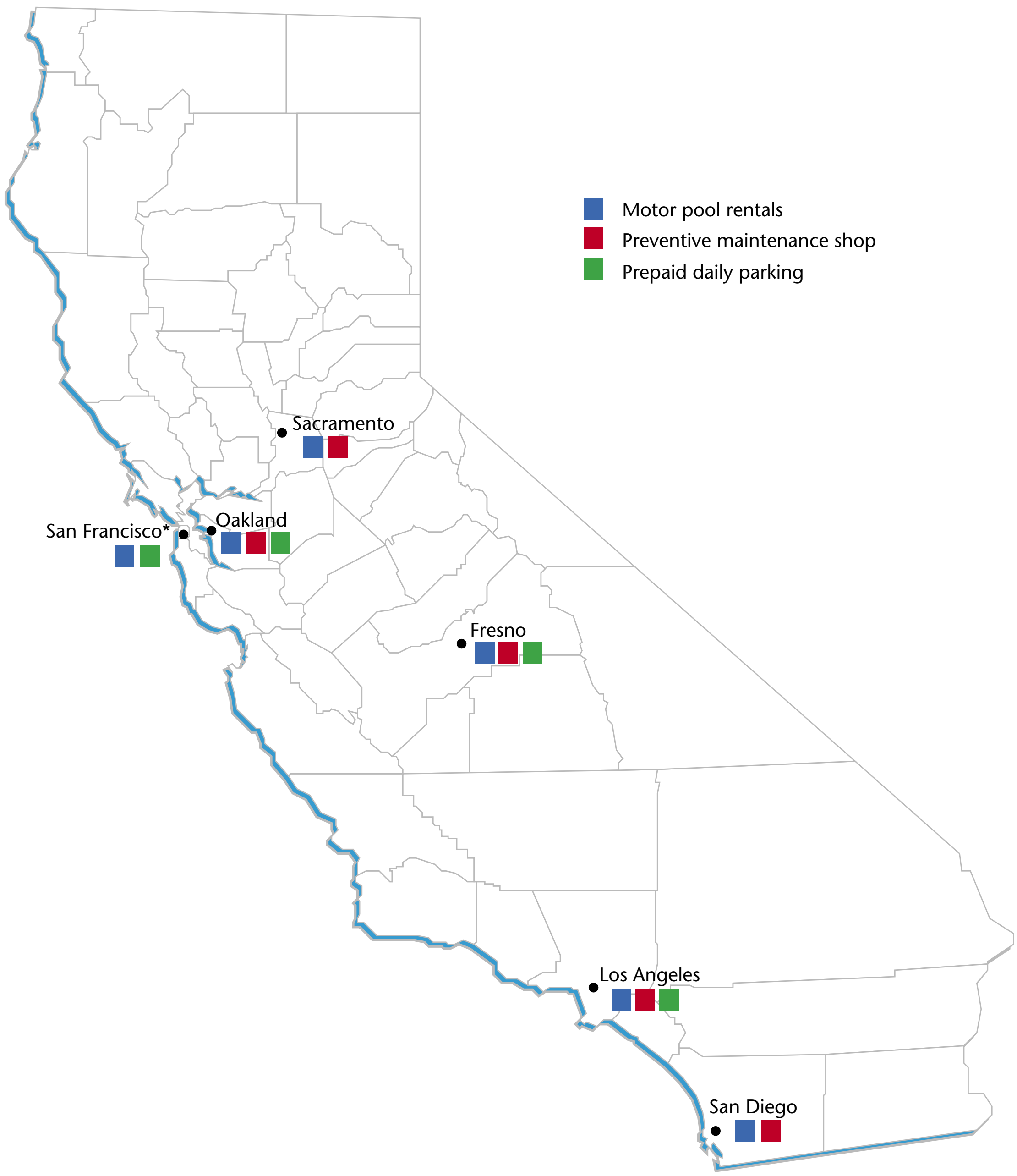
Fleet does not periodically analyze the revenues and expenses incurred at each garage. Consequently, Fleet does not know if any of its garages are operating at a loss. In fact, Fleet's accounting system does not track most revenues and expenses for its vehicles by their respective garages. According to Fleet's fiscal and program support manager, a former Fleet chief made the decision to track accounting information in aggregate. Each garage's main source of revenue is derived from the rental rates Fleet charges state agencies for the use of its motor pool. Although Fleet tracks certain revenues and expenses, such as tire sales and certain personnel costs by garage location, it does not track the revenue from vehicle rental fees and certain expenses, such as most of Fleet's depreciation, fuel, and insurance expenses, for the individual garages. Instead, Fleet tracks them in the aggregate for all garages.

Because it lacks the necessary information to determine the cost of operating each garage, Fleet could unknowingly be operating a garage that costs more than the garage generates in revenue.

With its current accounting system, Fleet can determine if its garages as a whole are operating at a break-even point, but it lacks the necessary information to determine the cost of operating each garage. Consequently, Fleet could unknowingly be operating a garage that costs more than the garage generates in revenue. Additionally, Fleet cannot use its accounting system to determine if the State would pay less if it closed one or more garages and obtained the garages' services from alternative

FIGURE 1

Fleet's Garage Locations



Source: Fleet's Web site.

* As of May 2005, Fleet expected to close the San Francisco garage by the end of June 2005.

sources. As of April 2005, Fleet's fiscal and program support manager was reviewing ways to modify the accounting system so that it tracks the revenues earned at each garage and provides Fleet the financial information necessary to analyze each garage.

Closing More Garages Could Reduce Fleet's Costs

Fleet's other garages, especially those with low rental volume, may also be candidates for closure.

As of May 2005, Fleet closed one of its garages, Van Nuys, and planned to close its San Francisco garage. These two may have been the most obvious choices for closure due to certain circumstances, such as an expiring lease on the San Francisco facility and because neither garage offered maintenance and repair services. However, its other garages, especially those with low rental volume, may also be candidates for closure.

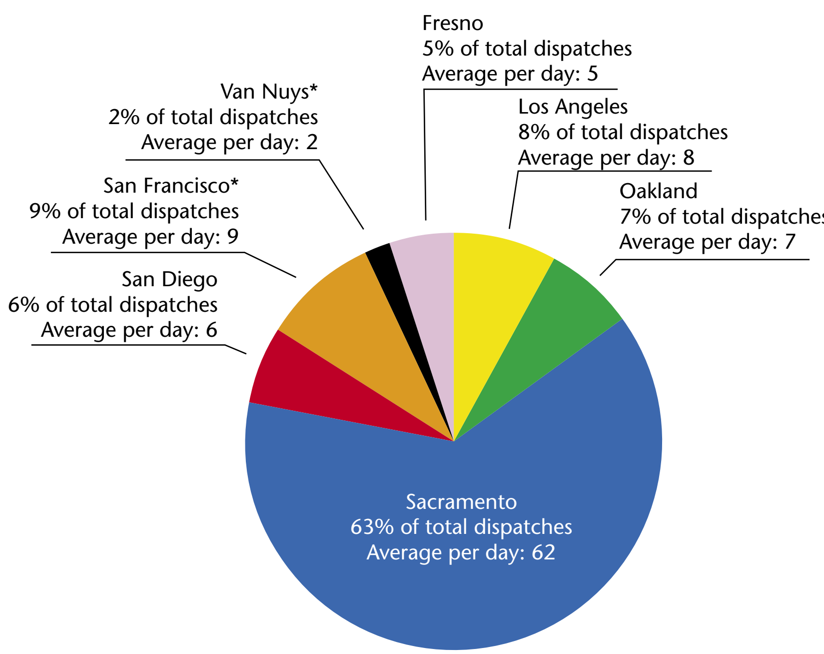
In its assessment of the Van Nuys garage, Fleet noted that it lacked staff to operate the garage effectively during normal business hours, and that the cost to continue operating the garage would have exceeded $196,000 annually. Fleet also noted that of the approximately 470 vehicles then assigned to the Van Nuys garage, only 60 were available for short-term use, and the use of those vehicles had dropped 42 percent from the previous year. Therefore, Fleet chose to close the garage effective July 2004 and consolidated its operations with those of the Los Angeles garage. Similarly, in its analysis of the San Francisco garage, Fleet discovered that its lease for the property was set to expire in November 2005 and that the owner was planning to significantly increase the monthly rent over the life of the new lease and require the State to pay for numerous costly property improvements. Therefore, as of May 2005, Fleet planned to close the San Francisco garage by the end of June 2005 and consolidate its operations into the Oakland garage.

Most of Fleet's motor pool comprises vehicles that state agencies rent over a long term. Fleet does not typically dispatch these vehicles frequently in the course of a year. For example, if an agency needs a vehicle for a period of eight months, Fleet dispatches a long-term rental vehicle once in eight months. In contrast, Fleet might dispatch a short-term vehicle more than a hundred times in eight months. Fleet's chief acknowledges that some aspects of renting vehicles over a long term are less labor intensive than short-term rentals, such as dispatching and fueling. However, the chief states that long-term vehicle rentals require certain administrative procedures not needed for short-term vehicles, including updating driver records and reporting monthly mileage. Nevertheless, in the assessments it conducted for the San Francisco and Van Nuys garages, Fleet noted that it could administer the garages' long-term vehicle rentals from other locations.

Fleet has not determined that any of its other garages are candidates for closure. As shown in Figure 2, a number of Fleet's garages dispatch few short-term rentals per day. When a vehicle is dispatched, it can be rented for one day or longer. A state agency can rent a vehicle for up to two weeks on a short-term basis. If a garage rents few vehicles on a short-term basis and Fleet could administer the long-term vehicle rentals from another garage, it might be less costly for the State to rely on the services of commercial rental companies or to reimburse employees for using their own vehicles as opposed to incurring the overhead costs to keep a particular garage open.

FIGURE 2

Fleet's Short-Term Rentals Dispatches by Garage Fiscal Year 2003–04



Note: The number of dispatches is not necessarily equal to the number of days vehicles are rented. A vehicle rented on a short-term basis can be rented from one day to two weeks. Averages are based on 248 state business days per year.

* Fleet closed the Van Nuys garage in July 2004 and, as of May 2005, planned to close the San Francisco garage by the end of June 2005.

For example, Fleet's data indicate that in fiscal year 2003–04, the San Diego garage dispatched an average of six vehicles per day for one day or longer and rented vehicles on a short-term basis for a total of 13,125 days. Assuming those rentals were intermediate-sized cars, the State would have paid about $643,000 in fees (not including fuel) if it had rented the vehicles from a commercial rental company at the lowest contract rate, which was $49 per day at the time. According to Fleet's accounting records, Fleet spent the same amount, $643,000, to operate the San Diego garage. However, the recorded operating costs of the garage do not include most of the costs to operate the vehicles assigned to that garage, such as depreciation, fuel, insurance, and maintenance. Although Fleet does not account for such costs by individual garage, they are significant. Additionally, the contract rate we use for comparison, as discussed previously, is a maximum rate, and contractors can charge significantly less. Although this example focuses on one garage, a similar analysis could be done for the other garages. In instances like this one, if there are no other mitigating circumstances—for instance, maintenance and repair services provided at the garage that justify keeping it open—we question why Fleet continues to operate the garage and whether the State could reduce costs if it sought competitive bids from commercial rental companies to take over the short-term rental operations in that area.

For garages that provide repair and maintenance services to Fleet and agency-owned vehicles, Fleet needs to assess the impact to the State of having these services performed by commercial repair shops. Fleet notes that its fiscal year 2003–04 records indicate that commercial repair shops already perform nearly 80 percent of the repair and maintenance services for its motor pool, primarily because the vehicles are not located near one of Fleet's garages and because of workload, among other reasons. Although Fleet captures data on the number of and amount spent on outsourced repairs and maintenance, Fleet does not know whether this ratio between in-house and outsourced repairs is the most effective use of state resources, as described later in the chapter.

Before Fleet closes more garages, it must consider all relevant factors, such as the frequency with which it makes short-term rentals and the ability for other garages to take over long-term rentals.

To make informed decisions before it closes more garages, Fleet must consider all relevant factors, such as the frequency with which it makes short-term rentals and the ability for other garages to take over long-term rentals. Additionally, Fleet must understand the cost of operating its garages and the costs of performing repairs and maintenance in-house before it can measure its cost-effectiveness against alternatives like commercial rental companies or repair shops.

Fleet Does Not Measure the Cost-Effectiveness of Its Repair and Maintenance Services

To ensure that state vehicles are properly maintained, are safe to operate, and comply with warranty requirements, Fleet developed preventive maintenance requirements, which are listed in its fleet handbook. Fleet provides maintenance and repair services to its motor pool and agency-owned vehicles at all of its remaining garages. However, Fleet does not adequately track its labor costs and therefore does not know how much it actually costs to perform each of the services it provides. As a result, Fleet cannot fully assess its competitiveness. Fleet needs to know the cost of the specific services it provides to make decisions about which services to outsource or perform in-house and which garages to close, consolidate, or expand.

Fleet does not determine how much time it spends performing various maintenance and repair services.

Although labor represents a significant cost for Fleet's garages, Fleet does not determine how much time it spends performing various maintenance and repair services, such as changing oil or servicing transmissions. Fleet employs technicians who perform these services, but it does not require them to allocate their time to specific tasks. If Fleet tracked labor hours by task through its timekeeping system, it could use that data and the information it maintains in its fleet database to determine the labor required to perform each service. For example, if its data showed that at the end of the year Fleet had performed 4,000 oil changes and Fleet's timekeeping system indicated that Fleet staff spent 2,000 hours performing oil changes, Fleet could deduce that each oil change takes 30 minutes and compute the related cost. Without knowing the labor costs of its services, Fleet cannot determine if the State is spending less to perform repair and maintenance services than it would spend at commercial repair shops. Additionally, as discussed previously, Fleet notes that its fiscal year 2003–04 records indicate that commercial repair shops performed nearly 80 percent of the motor pool's repairs and maintenance; yet lacking important data, it is unable to determine if this approximately 80-20 ratio is optimal.

In addition to tracking labor hours by task through its timekeeping system, the information Fleet maintains in its database related to repairs and maintenance must be specific regarding the individual task performed to permit meaningful analysis. Fleet uses codes to identify the type of work performed on vehicles by its in-house repair shops and commercial repair shops. However, Fleet staff code tasks to general categories that may encompass several different tasks. Fleet needs specific data to make informed decisions about its maintenance and repair operations.

In May 2005, Fleet's chief told us that measuring its cost-effectiveness is a Fleet priority and that by September 2005 Fleet anticipates implementing a timekeeping system that would allow it to track the amount of time staff spend performing tasks. With that information, Fleet will be able to analyze which tasks it can perform more cost-effectively than commercial repair shops can and if the current ratio of in-house repairs to repairs performed by commercial repair shops is optimal. Further, Fleet's assistant chief told us that Fleet has purchased several vehicles that have extended warranties. Fleet plans to assess the cost-benefit ratio of these extended warranties and the effect they may have on its in-house repair shops. Fleet's assistant chief commented that vehicles with extended warranties may reduce the role of the in-house repair shops.

RECOMMENDATIONS

To understand how much state agencies typically pay when using the services of contracted commercial rental companies, Fleet should require, through its contracts, that the companies report information on vehicle rentals that would enable Fleet to determine the average daily or monthly rate actually charged for each vehicle type. Fleet should use these amounts in its future cost-effectiveness studies.

In addition to rate comparisons, Fleet should compare the actual cost of operating its motor pool to the amount that the State would pay commercial rental companies. In doing so, Fleet should use the actual motor pool rental activity, such as the number of days or months that it rents vehicles by each vehicle type, and apply it to rates that commercial rental companies actually charge state agencies.

Before seeking additional commercial rental contracts, Fleet should do the following:

- Determine if paying for insurance when renting vehicles from commercial rental companies rather than other methods, such as self-insurance, is in the best interest of the State.

- Determine if it can obtain lower guaranteed contract rates for the State by evaluating the extent to which using contracts that contain extension options contributes to maximum contract rates that are significantly higher than rates that the commercial rental companies could charge.

- Continue its efforts to obtain lower rates from commercial rental companies by pursuing options for a more competitive contracting process.

To ensure that the vehicles in Fleet's motor pool are being used productively, Fleet should continue its efforts to establish a minimum-use requirement for the vehicles it rents to state agencies on a long-term basis and should ensure that state agencies follow the requirement or justify vehicle retention when they do not meet the requirement. Additionally, for its short-term pool, Fleet should continue to develop performance standards to better assess vehicle utilization and idle time.

To ensure that the composition of its motor pool is cost-effective, Fleet should continue its efforts to obtain costs by vehicle type. It should consider this information in its rate-setting process as well as in its comparisons to the costs of alternatives to the motor pool.

To ensure that it does not operate garages in areas where alternative methods of transportation, such as vehicles from commercial rental companies, would be less expensive to the State, Fleet should examine individual garages to determine whether it is cost-effective to continue operating them. Fleet should consider all relevant factors, such as the frequency with which it rents vehicles on a short-term basis, the ability for other garages to take long-term rentals, and the cost-effectiveness of its repair and maintenance services.

To determine the cost of its repair and maintenance services, Fleet should continue with its plan to track the time of its garage employees by task. Fleet should compare its costs to the amount that commercial repair shops would charge for the services. When doing so, Fleet must ensure that it is using meaningful data in its analysis. ■

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CHAPTER 2

The Office of Fleet Administration's Oversight of Vehicle Purchases and Parking Funds Needs Improvement

CHAPTER SUMMARY

In addition to operating the State's motor pool, the Office of Fleet Administration (Fleet), within the Department of General Services (General Services), oversees vehicle purchases for most state agencies, sets policies for agencies' vehicle utilization, and operates parking lots for state employees. In general, before a state agency can purchase a vehicle, Fleet must verify that the agency needs the vehicle. Before it implemented a new process for approving vehicle purchases in 2003, Fleet sometimes approved purchase requests with no documented justification of the need for the vehicles, and Fleet still does not require agencies to explain in writing why they cannot use their underutilized vehicles, if any, instead of the requested new vehicles.

Moreover, the method that Fleet uses to determine if state agencies need vehicles is not appropriate for purchase requests submitted by the Department of Rehabilitation (Rehabilitation) for vehicles its clients will use. When Rehabilitation purchases vehicles solely for its clients' use, Fleet does not make any kind of assessment regarding Rehabilitation's need for the vehicles, such as ensuring that Rehabilitation has followed regulations and explored all other options before resorting to a vehicle purchase.

Fleet's policy defining what constitutes an underutilized vehicle is the same as it was 20 years ago and may set a standard for minimum use that is too low for state vehicles. Because the utilization of current vehicles is one factor Fleet is supposed to consider when assessing the need for state agencies to purchase more, setting a low expectation may cause Fleet to approve more purchases than necessary. Fleet is concerned that it does not have adequate staff for its current and anticipated workload of vehicle purchase requests needing review. It has begun to reassess how it charges agencies for this review service because its current practice does not result in revenues that cover its costs.

Fleet's decision to enter into a costly agreement to purchase transit passes to shuttle parking clients (parkers) to and from peripheral parking lots in Sacramento, coupled with Fleet's failure to collect parking fees from more than 400 parkers who use the State's lots, has contributed to a deficit of $1.4 million in Fleet's parking fund as of June 30, 2004. Fleet manages approximately 30 parking lots owned or leased by General Services and is responsible for administering state parking policies. To address the fund deficit, Fleet plans to take several actions, including not paying the full costs of the shuttle service, but as of May 2005 it did not plan to try to collect the lost revenue from the 400 parkers.

FLEET COULD FURTHER IMPROVE ITS REVIEW OF THE PURCHASES OF AGENCY-OWNED VEHICLES

To ensure that state agencies do not make unnecessary vehicle purchases, state law requires Fleet to verify that the state agencies need the vehicles before it approves purchase requests. Although the process that Fleet uses to review vehicle requests has improved, Fleet could improve it further by requiring agencies to better justify why their underutilized vehicles, if any, cannot fulfill their vehicle needs. In addition, when reviewing the requests that Rehabilitation submits to purchase vehicles for clients' use, Fleet could do more to ensure that Rehabilitation needs the vehicle.

Fleet Is Responsible for Ensuring the Necessity of Vehicle Purchases for Most State Agencies

Before it can approve a state agency's request to purchase a vehicle, Fleet is required by the California Government Code to investigate and establish the necessity of the vehicle, and Fleet has established procedures for that review process. The relevant statutory definition of *state agency* includes every state office, officer, department, division, bureau, board, and commission; it does not include certain entities of state government, shown in the text box, that are exempt either because they are not part of the executive branch of government or, in the case of the University of California, because of provisions of the California Constitution that generally make it not subject to legislative control and oversight.

Government Entities Not Included in the Relevant Definition of State Agencies Subject to Fleet's Approval for Vehicle Purchases

- Legislature
- Constitutional officers
- Judicial branch
- University of California
- California State University (until January 1, 2005)

Before January 1, 2005, the definition also expressly excluded the California State University (CSU) because until then other legislation did not explicitly state otherwise.

In addition, according to Fleet's legal staff, certain state agencies, such as the California Department of Transportation, that would otherwise fall within the definition of *state agency* for purposes of Fleet's oversight have asserted that existing legal authority makes them exempt from Fleet's oversight, and historically, Fleet has generally honored these agencies' assertions. However, in response to legislation effective January 1, 2005, Fleet has reexamined its practice. In May 2005, it issued a management memorandum indicating that new legislation makes all agencies within the executive branch, except the University of California, subject to Fleet's approval of vehicle purchases. In addition, this new legislation, Chapter 926, Statutes of 2004, requires CSU to obtain Fleet's approval for vehicle requests effective January 1, 2005. The University of California is requested and encouraged to obtain Fleet's approval before purchasing a vehicle but is not required to do so. Fleet's chief told us in June 2005 that Fleet is planning to contact the University of California about this matter.

Opportunities Exist to Improve Fleet's Purchase Approval Process

Fleet has made changes to strengthen its purchase process that have improved the amount of information that state agencies submit to justify their vehicle purchase requests; however, more changes are needed. Until February 2003, Fleet's policy was to require an agency submitting a purchase request for one or more vehicles to explain the agency's need for the vehicles, but in practice it required no standard form or type of information for new purchases. In our review of Fleet's processing of 60 vehicle purchase requests during fiscal years 2001–02 through 2003–04, we found a variety of formats, including other agencies' forms or memorandums and differing amounts of information, for the purchase justifications before February 2003. In fact, for seven of the 33 requests submitted before the February 2003 change, and for two submitted shortly thereafter, the agencies provided no justifications whatsoever. Nevertheless, Fleet approved eight of the nine requests.

After improving the standard form for vehicle purchases in October 2003, Fleet now requires state agencies to explain how and where the vehicle will be used; why a special vehicle is needed; and whether the need for the vehicle is urgent.

In February 2003, the vehicle purchase ban imposed by the Governor's Office was implemented, as discussed in the Introduction. At that time, Fleet introduced a standard form for vehicle purchase requests, specifically requiring state agencies to explain their needs. After improving the form in October 2003, Fleet now requires state agencies to explain how and where the vehicle will be used; why a special vehicle, rather than a standard sedan, is required; and whether the need for the vehicle is urgent. When state agencies provide this additional information, Fleet is able to complete a more thorough, meaningful assessment of need.

Although the new form has resulted in Fleet's receiving more detailed explanations of why state agencies need to purchase vehicles, Fleet still does not require state agencies to report why any underutilized vehicles they might have cannot fulfill their needs. State agencies are required to report biannually on the vehicles they own, identifying vehicles that have failed to meet the minimum-use requirement. The form asks each state agency that has vehicles that did not meet the requirement to report each vehicle's license number, mileage driven, days used, and plan of action to increase utilization. Before Fleet approves state agencies' vehicle purchase requests, its policy is to determine whether the state agencies have reported underutilized vehicles. However, state agencies may have underutilized vehicles that are not adequate to fulfill their purchase requests. For example, in fiscal year 2003–04, the State's Military Department needed vehicles capable of towing bulky trailers for emergency responses. Although the Military Department reported that it had six underutilized vehicles, Fleet approved the request because the underutilized vehicles were more than 10 years old and were considered unreliable for emergencies.

Fleet's purchase request form does not ask state agencies to explain why their underutilized vehicles cannot fulfill their purchase requests.

Fleet's purchase request form does not ask state agencies to explain why their underutilized vehicles cannot fulfill their purchase requests. Additionally, the report on underutilized vehicles does not disclose the kind of information that would allow Fleet to make a decision to approve the purchase without seeking such an explanation. Consequently, if it is to make a thorough assessment of need, Fleet must follow up with the state agencies. By requiring state agencies to explain in writing why their underutilized vehicles are not adequate to meet their needs, Fleet not only would reduce the amount of follow-up it must perform but also could better ensure that state agencies consider increasing utilization of the vehicles they currently own before they request to purchase additional vehicles. Fleet has indicated that it plans to ask requesting agencies for more detailed information about their underutilized vehicles and obtain certifications from the agencies' fiscal officers verifying that underutilized vehicles are not able to meet the agencies' needs and explaining why.

Further, Fleet's process for reviewing the necessity of vehicle purchases is not adequate in all circumstances. Specifically, Rehabilitation sometimes purchases vehicles for its clients. Because the vehicles are for the sole use of Rehabilitation's clients, the number of underutilized vehicles that Rehabilitation has is not relevant to Fleet's assessment of the need for the vehicles. Therefore, Fleet does not make judgments as to whether Rehabilitation requires the vehicles. However, we believe that Fleet could do more to ensure that Rehabilitation has followed regulations and explored other transportation options. Title 9, Section 7164, of the California Code of Regulations sets the requirements that Rehabilitation's clients must meet before Rehabilitation can purchase vehicles for them. For example, the regulations require that "all other modes of transportation, as well as permanent relocation, have been explored and documented and a determination has been made that vehicle purchase is the most cost-effective means of obtaining transportation necessary to meet the client's specialized vocational needs," and they also require that the least expensive vehicle that meets the vocational needs shall be purchased.

During our review of the 60 vehicle requests that occurred in fiscal years 2001–02 through 2003–04, we found seven requests submitted by Rehabilitation for a total of 21 vehicles to be used by clients. In these requests, Rehabilitation never mentioned the Section 7164 regulations and instead typically justified the purchases by citing a more general statement in the California Code of Regulations indicating that clients have a right to receive appropriate services without undue delay. Fleet approved the 21 vehicle purchases and believes that reviewing Rehabilitation's purchase requests is not "value-added" because Fleet is not in a position to assess the needs of Rehabilitation's clients. However, before approving any purchases, Fleet could require Rehabilitation to certify that it has determined its clients meet all the requirements of the regulations when it submits vehicle requests for its clients.

FLEET'S MINIMUM-USE REQUIREMENT FOR STATE AGENCIES MAY BE TOO LOW

Fleet has established a policy to define the minimum number of miles or days that state agencies must use the vehicles they currently own. Fleet's policy is to consider whether an agency has met this minimum-use requirement when reviewing any vehicle purchase request the agency submits. However, the State's current minimum-use requirement, which is the same as it was 20 years ago, appears low. Consequently, Fleet may be allowing state agencies to purchase more vehicles than they need.

A policy requiring that state-owned vehicles be driven a minimum number of miles or days is critical to ensuring that the State's vehicles are an economical method of transportation.

A policy requiring that state-owned vehicles be driven a minimum number of miles or days is critical to ensuring that the State's vehicles are an economical method of transportation. Once a state agency owns a vehicle, the head of that agency is responsible for ensuring that it meets the minimum-use requirement. Nevertheless, if a state agency has underutilized vehicles, as defined by Fleet's policy, Fleet may not allow the agency to purchase additional vehicles.

The State incurs costs for vehicles it owns, whether individuals at state agencies drive them frequently or infrequently. By maximizing utilization, the State maximizes the benefits it obtains from vehicles and avoids unnecessary costs. To ensure that state agencies do not purchase more vehicles than they need, Fleet set a policy that an agency-owned vehicle must be driven at least 4,000 miles or 70 percent of the workdays every six months. Twice annually, every state agency that owns one or more vehicles must submit a report to Fleet describing the use of the vehicles and identifying vehicles that do not meet the minimum-use requirement. Fleet's policy is not to approve purchase requests for any state agency that does not have a current usage report on file. As part of the biannual report, the agency must include a plan to increase utilization or dispose of every vehicle that does not meet the minimum-use requirement. For example, one action plan would be to remove an underutilized vehicle from the sole use of one individual and make it available to multiple individuals. Alternatively, an action plan might explain why the state agency needs the vehicle even though it has low utilization. Fleet may prevent agencies from buying additional vehicles when they have underutilized vehicles.

The State's minimum-use requirement provides a level of assurance that state agencies maximize the economic potential of their vehicles. However, Fleet's policy on minimum miles is less demanding than the policies of some other governments.

A national association reported that, on average, governments it surveyed required vehicles to be driven 10,000 miles each year, 25 percent more than Fleet's policy.

The National Association of Fleet Administrators, a professional society for the automotive fleet management profession, performed a survey of fleet operators in 2003 asking participants how many miles they required their vehicles to be driven in a year. On average, government respondents required vehicles to be driven 10,000 miles each year, 25 percent more than Fleet's policy; and on average, commercial respondents required vehicles to be driven 15,000 miles, nearly 88 percent more than Fleet's policy of 4,000 miles every six months, which equates to 8,000 miles each year.

We contacted representatives from a few governments, including the federal government, to understand how they developed their minimum-use requirements. The federal government's recommended minimum-use guideline for passenger carrying vehicles is set at 12,000 miles each year. This policy matches the general policy of the federal General Services Administration (GSA) to replace vehicles after three years or when they reach 36,000 miles. Additionally, if the GSA's vehicles are driven the recommended 12,000 miles each year, after three years the vehicle would have 36,000 miles, and the agency would have maximized the three-year, 36,000-mile warranty that a representative from the GSA told us comes with most vehicles. The Commonwealth of Virginia sets its policy to ensure that state-owned vehicles are not used when personal mileage reimbursement would be more cost-effective to the state. Therefore, Virginia calculates the cost of owning vehicles and divides the total by the rate it reimburses employees for each mile they drive to determine the minimum number of miles a state-owned vehicle should be driven to be most cost-effective.

In contrast, Fleet could not tell us how it developed its minimum-use requirement. Its policy is the same as it was 20 years ago. Consequently, Fleet cannot demonstrate that the requirement was set appropriately or that it is still applicable. Fleet's chief told us in May 2005 that Fleet was reviewing public-sector guidelines for fleet utilization in other states nationwide and will revise the policy in the near future.

Although measuring mileage is an important way to ensure that state agencies use vehicles to their maximum potential, it is not appropriate in all situations. For example, the Department of Fish and Game has vehicles with low mileage that it uses to transport equipment and staff for field surveys, and it indicates that many field surveys require four-wheel drive vehicles. Additionally, vehicles used for emergency responses may be kept in a state of readiness to respond to disasters and may not be driven a high number of miles. Although we could not locate specific industry standards related to the number of days vehicles should be used, the guidance we found generally suggested that the requirement be set in terms of mileage and another factor, such as number of trips or time. Using time as a factor provides an exception for vehicles that may be used frequently but would not likely meet a mileage requirement. Fleet's policy allows state agencies to forgo the minimum-mile requirement if the state agencies use their vehicles at least 70 percent of the workdays. However, when we asked Fleet why it believes that 70 percent of workdays is appropriate, it did not have an analysis to show that this requirement is in the best interest of the State. If this requirement is set too low, the State could own or purchase more vehicles than it needs.

LIMITED RESOURCES PRESENT CHALLENGES FOR FLEET TO COMPLY WITH ITS RESPONSIBILITIES

Fleet states that its workload related to its review of vehicle purchase requests has increased, requiring it to dedicate more resources to this activity.

According to Fleet, even before the Legislature changed the law to require Fleet to review CSU's purchase requests, the sole Fleet staff member that performed these reviews already had an excessive workload. Fleet states that its workload has increased, requiring it to dedicate more resources to this activity. However, Fleet's current method of charging state agencies to fund purchase request reviews does not give Fleet any additional resources with its added responsibilities. Fleet needs to reevaluate the number of staff that it has dedicated to this task and how it seeks reimbursements from state agencies to continue meeting its statutory obligations.

Fleet's statewide mobile equipment coordinator (coordinator) is responsible for conducting the initial review and approving or denying a state agency's vehicle purchase request. In fiscal year 2001–02, the year before the Governor's Office issued a memorandum banning vehicle purchases, Fleet's summary document of vehicle purchases shows that Fleet approved the purchase of approximately 4,800 vehicles. In fiscal year 2003–04, the number of purchase approvals dropped to about 1,850.

Although the number of requests has declined significantly since the imposition of the purchase ban, and although Fleet now requires state agencies to provide written explanations of their need for vehicle purchases—both factors that we would expect to reduce the workload—Fleet's chief believes the coordinator's current workload is excessive. She told us that more vehicle purchase requests were processed in fiscal year 2001–02 than are currently being processed, but that Fleet's reviews and analyses at that time were limited. She believes the quality of current reviews is improved, providing higher levels of analysis to determine the actual needs of the agencies requesting vehicle purchases. Our own review of Fleet's processing of 60 purchase requests from fiscal years 2001–02 through 2003–04 generally supports her observations. Fleet's chief also told us that she anticipates that pent-up demand to purchase replacement vehicles will increase the number of requests when the ban is lifted. Fleet's coordinator indicated to us that, in the past, his position had an assigned assistant to perform certain administrative tasks. He also pointed out that he has had assistance with some administrative tasks but performs most of them himself. Additionally, because Fleet must now review CSU's requests for vehicles, Fleet's chief said its responsibilities have increased significantly. For instance, CSU reported approximately 3,800 passenger vehicles in its motor pool for fiscal year 2003–04. If it replaced those vehicles every seven years—the typical lifespan of Fleet's vehicles—it would add approximately 540 vehicle purchase requests to Fleet's annual workload.

The chief of Fleet indicated that the current workload does not allow the coordinator to focus on other responsibilities associated with the position, such as reviewing the usage reports submitted by state agencies. She also told us that Fleet is currently in the process of developing a request to increase the number of staff and has been assessing the current use of its staffing resources to focus on meeting its needs. For example, it has redirected a few garage positions to analytical positions as vacancies have occurred.

Fleet needs to reassess how it charges state agencies to review vehicle purchase requests because it will not receive additional revenue to match its increased workload if it continues its current reimbursement method.

Fleet needs to reassess how it charges state agencies to review vehicle purchase requests because it will not receive additional revenue to match its increased workload if it continues its current reimbursement method. Fleet is authorized to collect a fee to offset the cost of reviewing vehicle purchases. According to Fleet's fiscal and program support manager (manager), Fleet currently charges most state agencies an annual fee for each vehicle they own to participate in its vehicle inspection services program. She pointed out that an inspection generally occurs when a vehicle needs a repair costing more than $350, a new vehicle is received from an eligible vehicle dealership, or an agency requests that a vehicle be retired from state service. A portion of the annual fee is used to pay the expenses of reviewing vehicle purchase requests. However, the manager also noted that not every agency for which Fleet reviews vehicle purchase requests participates in the inspection services program. For example, certain state agencies that have significantly large motor pools, such as the Department of Water Resources, perform their own inspections. Moreover, she told us that CSU has not participated in the vehicle inspection services program but will now be required to do so because of the recent amendment to the California Government Code. State agencies that do not participate in the program pay nothing for Fleet's review of their purchase requests.

To cover the costs of its changing responsibilities without burdening only the agencies participating in the vehicle inspection services program, Fleet must develop a different way to obtain reimbursements for its purchase review. In May 2005, the chief indicated that Fleet will merge the fees for the vehicle inspection services program, which are currently paid by a limited number of agencies, into a new fleet asset management fee, which it will charge all state agencies owning vehicles. The chief anticipates that the change will take place in fiscal year 2006–07.

FLEET INADEQUATELY MANAGED PARKING LOT FUNDS

Fleet manages approximately 30 parking lots owned or leased by General Services as of May 2005 and is responsible for administering state parking policies. Through this parking program, state employees can obtain parking spaces in lots near state offices for their cars or bicycles. Fleet deposits the fees that it charges state employees for the parking spaces into its Motor Vehicle Parking Facilities Money Account (parking fund), which it draws on to operate and maintain the lots. In recent years, Fleet's inadequate management of its parking program has caused the parking fund to lose money.

At the end of fiscal year 2003–04, Fleet's parking fund had a deficit of $1.4 million.

The parking fund experienced losses in at least two recent fiscal years (2002–03 and 2003–04), and at the end of fiscal year 2003–04 had a deficit of $1.4 million. Fleet's handbook indicates that parking cannot be subsidized for state employees. Additionally, the State's policy is for state agencies to recover full costs whenever they provide goods or services for others. However, Fleet has borrowed money from the fund it uses to operate the motor pool to cover the parking fund's shortfalls. Consequently, at the end of fiscal year 2003–04, the parking fund owed the fund from which Fleet operates the motor pool more than $2.1 million. Although various factors contributed to the fund deficit, we focused on two that were within Fleet's control.

An agreement that Fleet has to purchase passes to shuttle people free of charge from parking lots on the perimeter of downtown Sacramento costs more than the peripheral lots are capable of generating in revenue, given the current rate structure.

Contributing to the parking fund's losses is an agreement that Fleet has to purchase transit passes from a vendor to shuttle people free of charge from parking lots on the perimeter of downtown Sacramento (peripheral lots) to locations nearer their work sites. This agreement costs more than the peripheral lots are capable of generating in revenue, given the current rate structure, and it makes up a significant percentage of the parking fund's total expenses. For example, in fiscal year 2003–04, the parking fund collected $4.5 million in revenues but had almost $4.9 million in expenses. Almost $1.2 million (24 percent) of the expenses was for the shuttle service, according to Fleet's cost allocation records.

The shuttle agreement that Fleet has with Sacramento Regional Transit District for fiscal year 2004–05 is for $960,000 for 5,000 annual passes, although the peripheral lots had only 1,135 parking spaces as of May 2005. Fleet's chief told us that Fleet based its decision to purchase 5,000 passes on the total potential riders for the peripheral lots that it operated at the time and that it calculated this amount based on the fact that there were approximately 1,750 peripheral parking spaces at the time, and it believed it would sell those spaces 50 percent above capacity. Selling above capacity recognizes that not all parkers will use the lots at the same time. The chief also told us that Fleet recognized that a certain percentage of the spaces would be taken up by carpools requiring multiple passes. Further, she stated that Fleet included additional passes to transport parkers from other lots that Fleet does not oversee, for which Fleet would be reimbursed. However, it is apparent that Fleet's projections did not materialize.

Another factor contributing to the parking fund's losses is Fleet's failure to collect fees from more than 400 parkers. The primary way parkers pay for their spaces is through payroll deductions, which the State Controller's Office (Controller's Office) processes. According to Fleet's parking and commute manager, Fleet staff discovered, while investigating the parking fund's losses, that many individuals either never had or at some point stopped having parking fees deducted from their paychecks. In addition to individuals, some state agencies also had not paid fees for parking vehicles they owned in Fleet's lots. After

After completing a reconciliation, Fleet identified roughly 400 parkers who were actively using their parking passes without paying.

completing a reconciliation that it started in November 2004, Fleet identified roughly 400 parkers who were actively using their parking passes without paying. According to Fleet's parking and commute manager, the fees for those spaces amount to $24,500 per month in revenue. However, Fleet was uncertain as to how long the oversight had occurred or how many more parkers who no longer have parking passes were involved.

The chief of Fleet explained that these errors went unnoticed because Fleet maintains data on parkers in three databases and did not begin reconciling the information with the amount of fees it collected until November 2004. Fleet's chief speculated that the Controller's Office may have stopped deducting fees from the paychecks of the nonpaying parkers after they became employed by different state agencies or that the Controller's Office may never have deducted fees from the parkers' paychecks because a breakdown occurred in Fleet's process for submitting payroll deduction forms to the Controller's Office.

Fleet has developed a process to reconcile its parking database information with its revenue on a monthly basis. Such a reconciliation should help detect these problems should they recur in the future. However, the chief of Fleet told us that it has no cost-effective way to determine how many people did not pay for their parking spaces before Fleet began its reconciliation, and it therefore cannot determine the amount of revenue lost. Specifically, it is not certain when former parkers stopped parking in Fleet's lots and when parkers stopped having fees deducted from their paychecks.

For the 400 parkers it identified as missing payments, the chief told us in May 2005 that Fleet has decided not to collect the lost revenue. Among the explanations she gave us were that it was not the fault of the parkers that their fees were not collected, that Fleet has determined that the records were so inaccurate that Fleet could not issue accurate bills, and that Fleet anticipated substantial disputes that would be difficult to defend. However, the decision not to try to collect this revenue is worthy of reconsideration. Fleet identified 400 parkers who were parking for free at the time of the initial reconciliation work. At a minimum, Fleet could determine when these parkers, who could have notified Fleet of its oversight, purchased their parking spaces and when they stopped paying for the spaces.

Fleet has started to take other steps to ensure that the parking fund does not continue to lose money. Specifically, in fiscal year 2004–05, Fleet closed one of its peripheral lots and gave parkers the opportunity to transfer to other peripheral lots. Not only does the closure help to maximize the economic potential of the remaining lots, but also we estimate that it will save Fleet more than $160,000 annually in lease payments for the closed lot. In addition, Fleet's chief told us that in the near future, Fleet intends to stop paying the entire cost of shuttling passengers to and from the peripheral lots. The chief also said Fleet is exploring other shuttle options, including having parkers obtain their own transportation passes using transit subsidies available to state employees. Finally, during Fleet's reconciliation process, it identified surplus parking spaces that it could make available for rent. According to Fleet's chief, Fleet rented more than 180 of these spaces in Sacramento in May 2005, resulting in approximately $7,700 in additional monthly revenue. Further, Fleet stated that it identified approximately 150 additional parking spaces in various other cities and is attempting to rent those spaces. Fleet believes these changes will help bring the fund to a positive financial standing within two fiscal years.

RECOMMENDATIONS

To improve its review of vehicle purchase requests and the related documentation that it receives, Fleet should continue using its new request form with an amendment requiring state agencies to explain, on the request form, why any underutilized vehicles they might have could not fulfill their requests.

To ensure that Rehabilitation has met all related regulatory requirements before it requests approval to purchase vehicles for its clients, Fleet should require Rehabilitation to certify, when it submits vehicle requests, that the clients meet all the requirements of the California Code of Regulations, Title 9, Section 7164.

Fleet should continue with its plan to revisit its minimum-use requirement for agency-owned vehicles to determine if the minimum number of miles or days that state agencies must drive their vehicles should be higher. When doing so, Fleet should consider factors such as the cost of alternative modes of transportation and warranty periods. Finally, Fleet should document the reasons for any decisions it makes.

To ensure that it can keep up with its responsibilities to review vehicle purchase requests, Fleet should reevaluate its staffing priorities and how it obtains reimbursements for this service. Further, it should continue with its plan to change how it allocates funding for reviews of vehicle purchase requests to ensure that the fees are charged equitably to all agencies and cover Fleet's costs of the reviews.

To ensure that it does not subsidize employee parking, Fleet should continue with its plan to stop paying the full cost of shuttling parkers to and from peripheral lots. Additionally, Fleet should, to the extent possible, seek reimbursement from parkers who have not paid for their parking spaces.

To reduce the deficit in the parking fund, Fleet should continue with its efforts to reduce expenses and maximize revenues from parking facilities by promptly identifying parking spaces that become available and renting them again.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE
State Auditor

Date: July 7, 2005

Staff: Karen L. McKenna, CPA, Audit Principal
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Agency's comments provided as text only.

State and Consumer Services Agency
915 Capitol Mall, Suite 200
Sacramento, CA 95814

June 22, 2005

Elaine Howle, State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Enclosed is our response prepared by the Department of General Services to the Bureau of State Audits' Report No. 2004-113 entitled, *Department of General Services, Office of Fleet Administration: Opportunities Exist to Reduce Costs With Improved Assessment of the Motor Pool's Cost-Effectiveness and Tightened Oversight of Vehicle Purchases Made by State Agencies.* * A copy of the response is also included on the enclosed diskette.

If you have any questions or need additional information, please contact me at (916) 653-4090.

Sincerely,

(Signed by: Fred Aguiar)

Fred Aguiar, Secretary

Enclosures

* California State Auditor's Comment: We subsequently modified the report title.

Department of General Services
707 Third Street
West Sacramento, CA 95605

June 22, 2005

Fred Aguiar, Secretary
State and Consumer Services Agency
915 Capitol Mall, Room 200
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* **Response to Bureau of State Audits' Report No. 2004-113 – "Department of General Services, Office of Fleet Administration: Opportunities Exist to Reduce Costs With Improved Assessment of the Motor Pool's Cost-Effectiveness and Tightened Oversight of Vehicle Purchases Made by State Agencies"**

Thank you for the opportunity to respond to the Bureau of State Audits' (BSA) Report No. 2004-113 which addresses recommendations to the Department of General Services' (DGS) Office of Fleet Administration (OFA). The following response addresses each of the recommendations.

OVERVIEW OF THE REPORT

The DGS has reviewed the findings, conclusions and recommendations presented in Report No. 2004-113. The DGS will take appropriate actions to address the BSA's recommendations.

Overall, the DGS is pleased that, in numerous instances, the BSA recommends that the OFA continue the actions that it has already taken or plans to take to address areas for improvement identified during the audit. At the time of the BSA's audit, the OFA was aware that additional opportunities existed for further improvement in the processes used to ensure the cost-effectiveness of the State's fleet operations. Toward this end, as discussed in the BSA's report, the OFA has taken or plans to take numerous significant actions to improve its operations including the: development of more relevant operational cost data to better track revenue and expenses; implementation of a process that ensures the tracking of the utilization of vehicles owned by the OFA and assigned to other State agencies; use of performance standards for OFA owned and controlled vehicles; pursuit of additional options for competitively procuring commercial rental car services; elimination of the motor vehicle parking fund paying for transit passes to shuttle parkers to and from peripheral parking locations; and, use of additional parking reconciliation procedures to ensure that parking revenues are maximized.

In addition, the DGS is researching the feasibility of developing and implementing a statewide fleet asset/management system. The goal of this project is to identify an information technology solution that will allow the more efficient and effective management of the State's fleet of vehicles, including those owned by the DGS or owned/leased by other State agencies. To date, the DGS has

* California State Auditor's Comment: We subsequently modified the report title.

contracted with a consulting firm to assist it in preparing a Feasibility Study Report (FSR) to identify optimal fleet business processes and information technology solutions. Currently, it is estimated that the FSR process will be completed in approximately six months.

It should also be noted that the DGS has policies in place that provide for continually seeking new methods to improve the economy, efficiency and effectiveness of the fleet operations administered by the OFA. As part of this process, over the last couple of years, the DGS has already taken numerous significant actions to improve fleet operations to ensure that the State's fleet assets and transportation related services are obtained at the best/cost value and utilized wisely by State agencies. The following sections identify some of the more significant actions taken to improve fleet operations.

- Beginning in October 2003, the DGS has issued a number of significant new policies governing the acquisition and use of State vehicles. The following sections briefly describe the Management Memos (MM) and related operating policies that have been issued by the DGS.
    1. MM 03-18, issued October 1, 2003 – notified State agencies of new procedures for the acquisition of new or replacement State vehicles. This process included a requirement for the completion of a detailed vehicle justification form signed by the requesting agency's director.
    2. MM 04-16, issued June 14, 2004 – called on all agencies operating State motor vehicles to make every effort to "Flex Your Power at the Pump", and lower fuel costs through vigorous compliance with the preventative maintenance standards issued by the OFA.
    3. MM 04-20, issued July 6, 2004 – issued policies governing the purchase or lease of light-duty alternative fuel, gasoline, hybrid-electric, and sport utility and four-wheel drive vehicles.
    4. MM 04-22, issued October 25, 2004 – established a system for State agencies to report on their owned or leased vehicles. Subsequently, in February 2005, a detailed report on state-owned or leased vehicles was posted to the DGS internet website.
    5. MM 05-08, issued May 17, 2005 – advised State agencies that on January 1, 2005 new legislation became effective requiring that all State agencies within the Executive Branch, including each campus of the California State University, shall not acquire vehicles without DGS' oversight. As part of this program, each State agency is required to have a Fleet Asset Management Plan on-file at the OFA governing its fleet operations.
    6. MM 05-09, issued June 14, 2005 – requires State agencies to execute proper management and oversight of General Services Charge Cards under their jurisdiction. The General Services Charge Card is used as a payment mechanism for various types of fleet transactions, including the leasing of vehicles from OFA garages or from contracted commercial car rental companies.
- As part of the State's fleet reduction plan which began in March 2003, the OFA reduced its fleet by 600 vehicles during the 2003 calendar year. This amount represented approximately 10% of the total fleet of vehicles owned by the DGS at that time.

- To maximize efficiencies and eliminate redundancies, the OFA has closed or plans to close two of its seven garages. Specifically, except for the continued use of the facility for the parking of long-term leased vehicles, the Van Nuys State Garage was closed on June 30, 2004. Further, the DGS has announced that the San Francisco State Garage will be closed on June 30, 2005. The closure of the San Francisco State Garage is estimated to save the State approximately $330,000 per year.
- Effective July 1, 2005, the DGS is implementing new requirements for travel agencies that provide services to State agencies. The new requirements provide that travel agencies may only charge a $10 maximum ticketing fee (current fees average $22) and must provide an on-line reservation or booking tool to all State departments. This revision to existing practices is expected to result in a savings in travel costs of approximately $1.4 million annually.
- In February 2005, the DGS closed a 617 space peripheral parking lot for an annual savings of $160,000.
- In January 2003, the DGS launched an on-line vehicle reservation system that allows State employees to make vehicle reservations through the OFA's internet web site.

The following response only addresses the recommendations. In general, the actions recommended by the BSA have merit and will be promptly addressed.

RECOMMENDATIONS

CHAPTER 1

RECOMMENDATION # 1: ***To understand how much state agencies typically pay when using the services of contracted commercial rental companies, Fleet should require through its contracts that the companies report information on vehicle rentals that would enable Fleet to determine the average daily or monthly rate actually charged for each vehicle type. Fleet should use these amounts in its future cost-effectiveness studies.***

DGS RESPONSE # 1:

Within the next commercial car rental contracts that are scheduled to begin on January 1, 2006, the OFA will ensure that provisions are made for the receipt of information on actual charges incurred for the daily or monthly rental of vehicles. This information will be used in future cost-effectiveness studies.

RECOMMENDATION # 2: ***In addition to rate comparisons, Fleet should compare the actual cost of operating its motor pool to the amount that the State would pay commercial rental companies. In doing so, Fleet should use the actual motor pool rental activity, such as the number of days or months that it rents vehicles by each vehicle type, and apply it to rates that commercial rental companies actually charge.***

DGS RESPONSE # 2:

As recommended by the BSA, upon the development of the necessary financial and vehicle usage data, the OFA will use that information to compare the actual cost of operating its motor pool to the amounts charged by commercial car rental companies to State agencies. Currently, the OFA is taking steps to ensure that information is more readily available on both the actual cost of its motor pool operations and the actual usage of its motor pool. However, this is a complex undertaking that involves the development of new budget, fiscal and information technology management systems. To date, the OFA has begun working with DGS' budget and fiscal staff to ensure that employee time charges are captured in a manner that provides more useful information on tasks performed in both inspection and garage operations. Currently, it is foreseen that a system to begin tracking tasks will be in-place by September 30, 2005.

In addition, the OFA is actively working with DGS' information technology staff to assist it in obtaining additional management information from the OFA's existing automated internal fleet management information system. Toward this end, a new software solution was recently purchased to enhance the reporting capabilities of OFA's existing system. Further, the OFA is in the process of contracting for consulting assistance to provide additional information technology programming support, with the primary goal of extracting more relevant cost-effectiveness data from the existing system. The OFA's goal is to have readily available management reports that include information on:

- utilization by vehicle type, State customer and garage location;
- fuel use by fuel type, vehicle type and garage location;
- long and short term lease information broken down by garage location, vehicle type and customer;
- accident data by garage; and,
- repair and maintenance records by category, vehicle type and garage location.

RECOMMENDATION # 3: ***Before seeking additional commercial rental contracts, Fleet should determine if paying for insurance when renting vehicles from commercial rental companies rather than other methods, such as self-insurance, is in the best interest of the State.***

DGS RESPONSE # 3:

The OFA will consult with the DGS' Office of Risk and Insurance Management to determine if an alternative method, such as self-insurance, to that of the commercial car rental companies being required to provide insurance coverage is in the best interest of the State. The results of this effort will be taken into account in procuring the next car rental contracts that are scheduled to begin on January 1, 2006.

RECOMMENDATION # 4: ***Before seeking additional commercial rental contracts, Fleet should determine if it can obtain lower guaranteed contract rates for the State by evaluating the extent to which using contracts that contain extension options contributes to maximum contract rates that are significantly higher than rates that the commercial rental companies could charge.***

DGS RESPONSE # 4:

The effect on pricing of the inclusion of an extension option provision in contracts will be evaluated as part of the next car rental procurement process. The extension option provision will only be included in future contracts if the evaluation shows that its inclusion is in the best interest of the State.

RECOMMENDATION # 5: ***Fleet should continue its efforts to obtain lower rates from commercial rental companies by pursuing options for a more competitive contracting process.***

DGS RESPONSE # 5:

The DGS is committed to obtaining competitive pricing from the car rental companies, while maintaining an acceptable service level to the State's employees. Toward this end, the OFA is exploring the advantages and disadvantages of implementing a competitively bid process that allows for awards to be made to one primary and one secondary car rental company, instead of the current system whereby seven different companies provide services to the State's employees. A decision as to the feasibility of pursing this option will be made in the near future.

RECOMMENDATION # 6: ***To ensure that the vehicles in Fleet's motor pool are being used productively, Fleet should continue its efforts to establish a minimum-use requirement for the vehicles it rents to state agencies on a long-term basis and ensure that state agencies follow the requirement or justify vehicle retention when they do not meet the requirement. Additionally, for its short-term pool, Fleet should continue to develop performance standards to better assess vehicle utilization and idle time.***

DGS RESPONSE # 6:

For the vehicles that are rented to State agencies on a long-term basis, in the near future, the OFA will notify the agencies that minimum usage data will need to be collected, analyzed and reported to the OFA. At this time, the criteria used will be the same as that currently being used for agency-owned vehicles, i.e., mileage use a minimum of 4,000 miles or vehicle-use 70 percent of workdays every six months.

Related to the productivity of its short-term vehicle pool, the OFA is currently developing performance standards to better assess utilization and idle time. As part of these efforts, other governmental entities with similar fleet operations are being contacted to obtain relevant information. Currently, it is planned that performance standards will be developed and operational within six-months.

RECOMMENDATION # 7: ***To determine that the composition of its motor pool is cost-effective, Fleet should continue its efforts to obtain costs by vehicle type. It should consider this information in its rate-setting process as well as in its comparisons to the costs of alternatives to the motor pool.***

DGS RESPONSE # 7:

As discussed in response to Recommendation No. 2, the OFA is taking significant actions to obtain the necessary information to determine the actual cost of its motor pool operations and the actual usage of its motor pool. The OFA is fully committed to this effort and will ensure that the process includes provisions for the identification of costs by vehicle type. This information will be considered in the development of vehicle rates and in comparisons to the costs of alternatives to the motor pool.

RECOMMENDATION # 8: ***To ensure that it does not operate garages in areas where alternative methods of transportation, such as vehicles from commercial rental companies, would be less expensive to the State, Fleet should examine individual garages to determine if it is cost-effective to continue operating them. Fleet should consider all relevant factors, such as the frequency with which it rents vehicles on a short-term basis, the ability for other garages to take long-term rentals, and the cost-effectiveness of its repair and maintenance services.***

DGS RESPONSE # 8:

As recognized by the BSA, to fully analyze the cost-effectiveness of its individual garages and to make informed decisions, the OFA needs additional detailed information on individual garage service usage and operating costs. As discussed in response to recommendations Nos. 2 and 7, the OFA is fully committed to developing this information. However, as previously noted, this is a long-term effort that involves the creation of new budget, fiscal and information technology management systems.

Until further management information is developed to fully judge the operations of the individual garages, the OFA's management will continue to use existing data to judge the efficiency and effectiveness of existing garages. As discussed in the Overview section of our response, recently, this process has resulted in the closure of two of the seven State garages: Van Nuys effective June 30, 2004 and San Francisco effective June 30, 2005.

RECOMMENDATION # 9: ***To determine the cost of its repair and maintenance services, Fleet should continue with its plan to track the time of its garage employees by task. Fleet should compare its costs to the amount that commercial repair shops would charge for the services. When doing so, Fleet must ensure it is using meaningful data in its analysis.***

DGS RESPONSE # 9

As noted by the BSA, the OFA is placing a high priority on obtaining additional information on the time spent by its garage employees on various tasks. In fact, as noted in response to Recommendation No. 2, the OFA has begun working with DGS' budget and fiscal staff to ensure that staff time charges are captured in a manner that provides more useful information on tasks performed in both inspection and garage operations. Currently, it is foreseen that a system to begin tracking tasks will be in-place by September 30, 2005. Subsequently, as recommended by the BSA, the resulting information will be used within future cost-effective studies.

CHAPTER 2

RECOMMENDATION # 1: ***To improve its review of vehicle purchase requests and the related documentation that it receives, Fleet should continue using its new request form with an amendment requiring state agencies to explain, on the request form, why any underutilized vehicles they might have could not fulfill their requests.***

DGS RESPONSE # 1:

By September 30, 2005, the OFA will revise the existing vehicle acquisition request form to require agencies requesting vehicle purchases to provide more detailed information on their underutilized vehicles. As part of that process, agency fiscal officers will be required to provide a certification as to their agreement that existing underutilized vehicles do not meet the agency's needs.

RECOMMENDATION # 2: ***To ensure that Rehabilitation has met all related regulatory requirements before it requests approval to purchase vehicles for its clients, Fleet should require Rehabilitation to certify, when it submits vehicle requests, that the clients met all the requirements of the California Code of Regulations, Title 9, Section 7164.***

DGS RESPONSE # 2:

In the near future, the OFA will meet with the Department of Rehabilitation (DOR) to discuss the BSA's concern with the process used to review and approve its client vehicle purchase requests. At this time, it is foreseen that a certification of compliance as recommended by the BSA will be developed and required to be used by the DOR for its client vehicle requests by September 30, 2005.

RECOMMENDATION # 3: ***Fleet should continue with its plan to revisit its minimum-use requirement for agency-owned vehicles to determine if the minimum number of miles or days that state agencies must drive their vehicles should be higher. When doing so, Fleet should consider factors such as the cost of alternative modes of transportation and warranty periods. Finally, Fleet should document the reasons for any decisions it makes.***

DGS RESPONSE # 3:

Currently, the OFA is reviewing the vehicle usage guidelines used by other public-sector entities to determine their applicability to the State's fleet operations. If a revision to existing usage guidelines is deemed to be in the State's best interest, new criteria governing the minimum use of vehicles will be developed, documented and issued for agency-owned vehicles. It is planned that any revisions made to existing vehicle usage policies will be issued by the agency reporting period that begins in February 2006.

RECOMMENDATION # 4: ***To ensure that it can keep up with its responsibilities to review vehicle purchase requests, Fleet should reevaluate its staffing priorities and how it obtains reimbursements for this service. Further, it should continue with its plan to change how it allocates funding for vehicle purchase reviews to ensure the fees are charged equitably to all agencies and cover Fleet's costs of the reviews.***

DGS RESPONSE # 4:

The OFA has implemented policies which ensure that workload is continually evaluated and staffing adjustments made in a timely manner. As pertains to the review of vehicle purchase requests, on July 1, 2005 an additional staff member will be redirected to this activity. Further, on May 17, 2005, the DGS issued new policies (MM 05-08) that identified a number of fleet-type assets that no longer will be overseen by the OFA, including golf carts, mowers and fork lifts. This action will result in the OFA's resources being focused on fleet assets that are at a higher risk of cost inefficiencies.

As to the reimbursement and funding of its vehicle purchase reviews, as authorized by Government Code Section 13332.09 (c) which was effective on January 1, 2005, the OFA plans to develop a new fee to cover costs incurred in the analysis and management of the State's vehicle fleet. The cost recovery process will be developed in a manner which ensures that fees are charged equitably to all agencies.

RECOMMENDATION # 5: ***To ensure it does not subsidize employee parking, Fleet should continue with its plan to stop paying the full cost of shuttling parkers to and from peripheral lots. Additionally, Fleet should, to the extent possible, seek reimbursement from parkers who have not paid for their parking spaces.***

DGS RESPONSE # 5:

Effective September 1, 2005, the parking fund administered by the OFA will no longer be used to purchase transit passes to shuttle parkers to and from peripheral lots. As to the collection of employee parking fees, the DGS has taken steps to ensure that all parkers are paying appropriate fees for parking in OFA managed lots. The DGS will also reexamine its original decision to not seek reimbursement from parkers who were previously using their parking spaces without paying. It is anticipated that this reexamination will be complete by September 2005.

RECOMMENDATION # 6: ***To reduce the deficit in the parking fund, Fleet should continue with its efforts to reduce expenses and maximize revenues from parking facilities by promptly identifying parking spaces that become available and renting them again.***

DGS RESPONSE # 6:

Over the last fiscal year, the OFA has implemented additional policies and procedures to ensure that parking revenues are maximized. As recognized in the BSA's audit report, the success of these efforts is disclosed by a number of recent actions including, in February 2005, closing a peripheral lot in Sacramento and relocating parkers at an annual savings of $160,000. Further, the OFA's ongoing parking reconciliation activity has resulted in the identification of additional available spaces in Sacramento. In early May 2005, 182 of the identified spaces were rented resulting in approximately $7,700 in additional monthly revenue. Further, the OFA has recently identified another approximately 150 available parking spaces in other cities. The OFA is actively publicizing and attempting to rent those spaces.

CONCLUSION

The DGS is firmly committed to effectively and efficiently overseeing the State's fleet operations. As part of its continuing efforts to improve these operations, the DGS will take appropriate actions to address the issues presented in the report.

If you need further information or assistance on this issue, please call me at 376-5012.

(Signed by: Ron Joseph)

Ron Joseph
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press