California State Auditor

ELAINE M. HOWLE
STATE AUDITOR

DOUG CORDINER
CHIEF DEPUTY STATE AUDITOR

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

Dear Governor and Legislative Leaders:

This letter report presents the results of a follow-up review the Bureau of State Audits (bureau) conducted concerning the efforts of the Office of Fleet Administration (Fleet), within the Department of General Services (General Services), to implement selected recommendations from a report the bureau issued in July 2005 titled *Department of General Services: Opportunities Exist Within the Office of Fleet Administration to Reduce Costs* (2004-113). During the follow-up review, we focused on four key findings related to the cost-effectiveness of General Services' garages and fleet of rental vehicles and management of parking lot funds. We found that although some progress has been made to implement our recommendations, Fleet could do more to better analyze the cost-effectiveness of its garages and rental vehicles and track the amounts it has collected from parkers who fail to pay parking fees. Specifically, General Services' reported savings through its new rental contracts are questionable, it still does not adequately analyze all of the revenues and expenses by garage, and is still working on tools to analyze the competitiveness of its maintenance and repair shops.

BACKGROUND

In 2004 the Joint Legislative Audit Committee (audit committee) requested that the bureau conduct an audit of state-owned vehicles with a focus on the garages that Fleet operates. The audit committee had asked the bureau to determine whether Fleet 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 out its vehicles and to own and operate its garages. In addition, the audit committee requested that the bureau 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.

In July 2005 we issued our report and concluded that Fleet's analyses, which indicated that its vehicle rental rates were competitive with those of commercial rental companies, did not fully demonstrate its cost-effectiveness because Fleet lacked assurance that the commercial rates it used in its comparisons were similar to what state agencies actually paid. In addition, we concluded that Fleet did not periodically assess the cost-effectiveness of individual garages, nor did Fleet measure the cost-effectiveness of its repair and maintenance services. Finally, we concluded that Fleet inadequately managed parking lot funds.

Pursuant to the authority granted to the bureau, including the audit standards the bureau operates under, it has been a long-standing administrative practice to require each agency or department we have audited to report to the bureau on its progress in implementing our recommendations at three intervals—60 days, six months, and one year (California Government Code, Title 2, Section 8543, and Government Auditing Standards, paragraph 1.27). Under that same authority, it has also been a long-standing administrative practice of the bureau to conduct follow-up reviews of audits when resources are available and the bureau determines it is prudent to do so.

FLEET COULD DO MORE TO ANALYZE THE COST-EFFECTIVENESS OF ITS MOTOR POOL

In our July 2005 report we found that Fleet, in order to measure its cost-effectiveness, periodically compared its rates to those of commercial rental companies. The commercial rental rates Fleet used in the analyses were generally either rates, obtained through the Internet or by telephone or e-mail, that the commercial rental companies offered to the general public at individual locations in the State or the maximum rates that the commercial rental companies have agreed to in their individual contracts with Fleet. When Fleet compared the amount it charged to those charged by these individual commercial rental companies for each vehicle type, the comparisons indicated that its rates were competitive and that state agencies save money by using Fleet's services when they are available. However, the maximum contract rates used in these analyses did not provide for a meaningful comparison because, as Fleet acknowledged, commercial rental companies did not typically charge state agencies such high rates. In fact, as we reported in July 2005, 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, which are lower than rates charged to the general public.

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 commercial rental companies typically charge the State. In July 2005 Fleet's contracts with commercial rental companies required 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 received did not identify the average monthly, weekly, or daily rental rates the companies charged by vehicle type. Thus, we recommended that Fleet compare the actual cost of operating its motor pool to the amount the State would pay commercial rental companies. In doing so, we recommended that Fleet use the actual motor pool rental activity, such as the number of days or months that it rents vehicles by each vehicle type, and multiply the result by the rates that commercial rental companies actually charge state agencies by vehicle type.

In its December 2006 response to our audit, Fleet reported that it has worked with General Services' information technology staff and a consultant to obtain additional management information from its automated internal fleet management information system. Fleet asserted that with the development of this information system and the resulting accumulation of historical operating data, it is now able to more accurately compare the actual cost of operating its motor pool to the amounts charged by its contracted commercial car rental companies.

During our follow-up review, we found that General Services retained a consulting firm to report on the cost-effectiveness of Fleet's service activities. As part of this review, the consultant compared Fleet's short-term rental costs for motor pool vehicles to those available from commercial sources. The consultant's December 2006 report indicates that the State saves 17 percent when using Fleet's vehicles, rather than its primary rental car vendor to provide short-term rental vehicles. The analysis performed by the consultant is an improvement over prior analyses because it attempts to compare actual costs of renting a specific type of vehicle rather than simply comparing maximum contracted rates between Fleet's vehicles and a commercial rental company. However, the consultant reported certain limitations in its calculations that are cause for concern.

According to the consultant's report, it limited its review to one type of vehicle—the compact sedan—which it stated was the most prominent vehicle type Fleet owns and constitutes the bulk of the primary vendor's rental activity. The consultant stated that it obtained data for more than 3,200 rental transactions for the first quarter of 2006 and included rentals with daily rates ranging from $15 to $169. However, because the data it received did not include the vehicle type, the consultant was unable to determine why the rates varied so greatly and did not match up with the State's contracted rates. Thus, the consultant deleted all transactions that did not meet the contracted state rate for a compact sedan, $32.39, which limited the consultant's analysis to 1,359 transactions of the total of 3,200 transactions. Because the data did not contain the vehicle type, the consultant could not be sure that the transactions used for its calculations only represented those for compact sedans. Further, because the consultant reported it identified transactions that did not meet the State contracted rate, we are concerned that the consultant's analysis might have inadvertently excluded the transactions, if any, for compact sedans that did not meet the contracted rate of $32.39. If the consultant excluded all transactions for compact sedans that were either less than or more than the contracted rate, then the consultant's savings rate of 17 percent could be either overstated or understated.

When we brought our concerns to Fleet's attention, the Chief of Fleet Administration (chief) stated she had verbally discussed with the consulting firm the shortcomings of the report, and the consultant's inability to perform the contracted analysis. Nevertheless, Fleet still has not conducted the analyses we recommended, which was to measure its cost-effectiveness by comparing how much it actually costs to operate the motor pool to the amount that the State would pay using similar vehicles and paying rates that commercial rental companies actually charge state agencies. Consequently, without a more thorough analysis, we are not convinced that Fleet's motor pool is the most cost-effective use of the State's resources or if other alternatives would cost Fleet less.

GENERAL SERVICES' REPORTED CONTRACT SAVINGS ARE QUESTIONABLE

In addition to the recommendation in the previous section, we also recommended that Fleet require, through its contracts, that commercial rental companies the State uses report information on vehicle rentals that would enable Fleet to determine the average daily or monthly rate actually charged for each vehicle type. By doing so, Fleet would be able to understand how much state agencies typically pay when using the services of these companies. In its one-year response, General Services stated that it had entered into new commercial car rental contracts on January 1, 2006, which include additional reporting requirements on actual charges incurred for the daily and weekly leasing of vehicles. Specifically, the contracts require its two vendors—a primary vendor and secondary vendor—to report to General Services details on rental activity, such as the number of each size/class (vehicle type) car rented, total revenue from State employee rentals, total number of days per rental, and the total number of rentals per month by state department.

However, although these contracts have been in effect for more than a year, the information reported by the primary vendor does not provide all of the details required under the contract. The reports the primary vendor provides to General Services only include details such as the total monthly rental income, total number of rental days, and total number of rental transactions by region, but do not provide a breakdown by state department of the number of rental days and income by vehicle type as required under the contract. Although General Services receives detailed information on the number of rental days and income per vehicle type for those vehicles state employees rented using a business travel account, it does not have this same type of detailed information for state employees that use their General Services' charge card when renting a vehicle. Consequently, without data pertaining to all rental transactions, General Services can only perform limited analyses as to whether the contract with the primary vendor is, in fact, providing savings.

In December 2006 General Services reported to us that it reviews the reports submitted by vendors to determine the average cost and rental duration for each type of vehicle rented. Based on reports prepared by its primary vendor, General Services asserted that it has already saved roughly $3.7 million after only 11 months of the new contract. However, the claim that General Services reviews vendor data on rental duration by vehicle type proved to be inaccurate and we are uncertain as to whether the contract is providing the level of savings reported by the vendor. Specifically, General Services did not independently verify any of the vendor's calculations by reviewing supporting documentation. Because it is in the vendor's best interest to report significant savings related to its contract, we expected that General Services would have performed its own review of the supporting documentation and related calculations. In addition, the vendor's methodology for calculating savings is based on a comparison of the average rental invoice cost from one year to the next. By using this methodology, the vendor did not consider the number of days a particular vehicle was rented. Logic would dictate that a vehicle rented for multiple days would have a higher invoice cost than would the same vehicle rented for a single day. Thus, simply averaging the cost of these invoices could artificially raise or lower the average rental invoice cost.

A better approach for calculating the potential savings would be to multiply the actual average daily rate for each vehicle type covered in the contract by the total number of days each of those vehicle types were rented. However, such an analysis is not possible until the vendor provides General Services with data that includes the vehicle type. The data the vendor used for its savings calculation did not identify the vehicle type. Because our review of the detailed information related to the vehicles rented through the business travel account indicated that state employees rented vehicles for at least 15 different vehicle types, we believe the reported savings calculation was not limited to the rental activities of the five vehicle types that are covered in the contract. Even though we have concerns with the data, we recalculated the vendor's reported savings using an approach that factored in the average daily rate charged, multiplied by the actual number of days that all vehicles were rented during the 11-month period. While not optimal, using this method, we calculated a potential savings of $2.3 million, which is less than the $3.7 million calculated by the vendor and claimed as savings by General Services.

FLEET STILL DOES NOT ADEQUATELY ANALYZE ALL OF THE REVENUES AND EXPENSES BY GARAGE

In July 2005 we reported that although Fleet operates several garages throughout the State, it did not periodically analyze the revenues and expenses incurred at each garage. Consequently, Fleet did not know if any of its garages were operating at a loss. In fact, Fleet's accounting system did not track most revenues and expenses for its vehicles by their respective garages. Although Fleet tracked some revenues and expenses, such as tire sales and certain personnel costs by garage location, it did 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 tracked them in the aggregate for all garages.

With the accounting system in use at the time of our original assessment, Fleet could only determine if its statewide garage operations were at a break-even point, but it lacked the necessary information to determine the cost benefit of operating each one of its garages. Additionally, Fleet could not use its system to determine if the State would pay less if it closed one or more garages and obtained the garages' services from alternative sources. Consequently, Fleet could have unknowingly been operating garages at a loss. As of April 2005 Fleet was reviewing ways to modify its accounting system so that it would track the revenues earned at each garage and provide Fleet the financial information necessary to analyze the cost benefit of operating each garage.

We recommended that Fleet examine individual garages to determine if it is cost-effective to continue operating them and, in doing so, consider all relevant factors, such as the frequency with which it rents vehicles on a short-term basis, the ability for other garages to make long-term rentals, and the cost-effectiveness of its repair and maintenance services. In its December 2006 response to the audit, General Services reported that it had developed additional utilization and cost data that would assist in judging the efficiency and effectiveness of its garages. Additionally, General Services reported that Fleet reorganized its garage operations and hired a new manager over those operations. General Services stated that the new manager has a strong background in managing fleet programs, and is actively using the additional data and information to evaluate the cost-effectiveness of the individual garages.

During our follow-up review, we found that Fleet began capturing costs by garage in January 2006. However, despite capturing the relevant financial data, we did not see how Fleet uses the data to evaluate the cost-effectiveness of the individual garages. In fact, Fleet was not even aware that two of its garages have been operating at a loss. During our conversations with the chief about the cost-effectiveness of each individual garage, she stated that all garages were operating without a deficit. However, when we reviewed the income and expense report for the period July 2006 to March 2007, we found that two of the five garages—Sacramento and Oakland—actually had accumulated deficits of roughly $1.1 million and $30,000, respectively. Although these two garages had accumulated deficits, the five garages that Fleet operates had an accumulated surplus of roughly $1.3 million for the same period. When we brought this matter to the chief's attention, she agreed that Sacramento and Oakland are operating with a deficit. Consequently, it appears Fleet could do more to analyze the cost-effectiveness of its individual garages as we recommended in our audit.

ALTHOUGH ITS CONSULTANT CONCLUDED THAT FLEET'S MAINTENANCE AND REPAIR SHOPS ARE MARGINALLY PRODUCTIVE, FLEET IS STILL WORKING ON TOOLS TO DEVELOP ITS OWN ANALYSIS

In our July 2005 report we found that Fleet provided maintenance and repair services to its motor pool and agency-owned vehicles at its garages. However, we reported that Fleet did not adequately track its labor costs and therefore did not know how much it actually costs to perform each of the services it provides. As a result, Fleet could not fully assess its competitiveness. We noted at the time that 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.

Although labor represents a significant cost for Fleet's garages, Fleet did not determine how much time it spent performing various maintenance and repair services, such as changing oil or servicing transmissions. Fleet employs technicians who perform these services, but it did not require them to allocate their time to specific tasks. We concluded that 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. 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.

In May 2005 Fleet's chief told us that measuring its cost-effectiveness is a priority for Fleet and that by September 2005 Fleet anticipated implementing a timekeeping system that would allow it to track the amount of time staff spend performing tasks. With that information, Fleet would 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.

In our July 2005 report we recommended that Fleet continue with its plan to track the time of its garage employees by task and compare its costs to the amount that commercial repair shops would charge for the same services. According to General Services, it installed a new system for tracking tasks for use within Fleet in October 2005. General Services reported to us that Fleet has actively worked with its budget and fiscal staff to ensure it captures the time staff charge in a manner that provides more useful information on tasks performed in both inspection and garage operations. In its response to our audit, General Services stated that garage staff and Fleet's asset management staff were trained and the new system became fully operational in January 2006. During our follow up, we reviewed documents that indicate Fleet has incorporated more detail in tracking the time of its garage employees by task. According to the chief, Fleet is using the data from the activity-based management system to look at productivity and what jobs should be done in-house. She also stated that it is outsourcing large jobs.

Additionally, the consultant retained by General Services to report on the cost-effectiveness of Fleet's services reviewed its maintenance management and in-house maintenance programs and provided a number of conclusions and recommendations. More specifically, the consultant indicated that Fleet's maintenance management program, which is responsible for approving maintenance of all State vehicles, "is not providing competitive services in this area—both in terms of costs and service levels." The consultant concluded that Fleet's estimated annual maintenance and repair costs are $312 higher per vehicle than the costs of the largest U.S. fleet management company it chose for comparison purposes. Thus, one of several recommendations the consultant made related to this program concluded that General Services should consider using a maintenance management program provided by a commercial fleet management company in order to drive down maintenance and repair costs, improve service levels, and reduce transaction costs. The consultant stated it believed the higher costs were generally the result of the replacement practices in place at the State. The consultant also indicated that many issues could be solved if the State adopted more rational replacement policies and practices instead of the current criterion for replacing most passenger vehicles at 120,000 miles, regardless of the vehicle's age.

The consultant also reviewed Fleet's in-house maintenance program and concluded that Fleet's five maintenance shops are underutilized and largely superfluous. The consultant indicated that Fleet's mechanics are on average 25 percent less productive than the industry benchmark, thus, maintenance and repair costs are not competitive with commercial vendors. The consultant also stated that it believes Fleet should plan for the closure of most of its maintenance shops.

Fleet did not fully agree with all of the consultant's conclusions. According to the chief, the consultant's analysis of the commercial fleet management company did not take into account the life cycle of the State's fleet in comparison to that of the commercial fleet which is replaced twice as frequently. The chief also stated that the higher per vehicle cost is predominately a measure of keeping state vehicles operating twice as long as commercial vehicles. She stated that conversely, the cost to own a commercial fleet can be as much as twice that of the state fleet when accounting for the cost of replacing commercial vehicles at 65,000 miles as opposed to state vehicles at 120,000 miles. The chief indicated that Fleet is currently using new tools to perform its own assessment of the costs and productivity of its maintenance shops to help it determine what improvements are needed or what services are most cost-effective to perform.

However, the chief's response to the consultant's analysis is mixing two distinct concepts—Fleet's cost-effectiveness when repairing vehicles and a decision of when to replace vehicles that would include additional factors such as depreciation. If Fleet believes that its repair costs are not comparable to others because the cost of repairing vehicles with between 65,000 miles and 120,000 miles is significantly higher than for the first

65,000 miles, it needs to perform an analysis of its cost to repair vehicles for the first 65,000 miles and compare that cost to the maintenance cost of other commercial fleets in order to determine if its repair shops are as cost-effective as those in the private sector. Separate from this analysis, if it disagrees with the consultant's conclusion that Fleet is making a poor economic decision in keeping vehicles for as long as it does, Fleet needs to perform a separate analysis that compares the cost of repairs plus depreciation and other costs over the 120,000-mile life of its vehicles to determine if it makes economic sense to keep its vehicles as long as it does. However, two separate analyses are needed to answer these two distinct questions. The first to determine if Fleet's repair shops are cost-effective and the second to determine the most cost-effective length of time to keep its vehicles.

GENERAL SERVICES IS MAKING PROGRESS IN COLLECTING UNPAID PARKING FEES

Fleet manages approximately 30 parking lots owned or leased by General Services 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. The parking fund experienced losses in at least two fiscal years (2002–03 and 2003–04), and at the end of fiscal year 2003–04 had a deficit of $1.4 million.

We reported in July 2005 that one of the factors contributing to the parking fund's losses was Fleet's failure to collect fees from more than 400 parkers. 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 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, as of July 2005, Fleet was uncertain as to how long parkers had failed to pay or how many more parkers who no longer have parking passes were involved. We recommended that Fleet should, to the extent possible, seek reimbursement from parkers who have not paid for their parking spaces.

In December 2006 General Services stated that based upon its audit staff's comprehensive evaluation of information on potential nonpaying parkers that it developed in November 2004, it identified 49 parkers—down from a little more than 400 parkers it initially identified—as owing unpaid parking fees amounting to roughly $45,000. General Services stated that, as of January 2006, each of the 49 employees had either paid their outstanding balance or established a monthly repayment plan. When we asked General Services why the list of unpaid parkers went from roughly 400 to 49, the chief indicated it prepared the original list using a flawed methodology. Specifically, she stated that Fleet compared a list of parkers from a data system to a payroll deduction report for state employees, which is maintained by the State Controller's Office (Controller). By doing this, spaces designated for state agencies were automatically included on the list because the amounts state agencies pay for their parking spaces are not reflected on the payroll deduction report. Further, individuals that work in the Legislature also were incorrectly included on the list for the same reason. In addition, the original list of roughly 400 unpaid parkers also contained a number of other errors. One example of these errors would be cases where the employee paid for a parking space using a different name or Social Security number than was used to compile the list. Another example are instances when employees who paid for parking spaces at one lot were erroneously shown on the list as failing to pay for parking spaces at another lot. The list also contained individuals who did not have to pay for parking, such as justices because, according to state law, the General Services' director may make parking facilities available to elected state officials without charge. During our follow up, we selected a sample of 20 parkers and spaces and found that the reasons General Services determined these parkers did not owe unpaid fees were supported and appropriate.

Also, during our follow up, we reviewed the status of the payments made or being made by the 49 parkers who, according to General Services, owed parking fees. As of February 2007 General Services reported that 36 of the 49 parkers have paid their outstanding balances in full, and the remaining 13 parkers were still making payments according to a repayment plan. We reviewed the payments made by each of the 36 parkers that General Services stated had paid in full and found that 20 had paid the correct amount. Based on the evidence we reviewed, 10 of the parkers still owed between $10 and $1,550, for a total unpaid balance of $3,550, and six parkers overpaid between $10 and $388, for a total overpayment of $1,147. When we brought this to Fleet's attention, the chief stated that she was not aware of the discrepancies and would issue refunds to those that overpaid and start to collect the additional funds from those that underpaid. She stated that employees paying for outstanding parking fees were set up on monthly payroll deduction plans through the Controller and Fleet assumed these parkers had continuous monthly deductions taken out from their paychecks. The chief also stated that the discrepancies occurred because of leaves of absence, terminations of employment, final payments that were less than the monthly deduction, and delays in the cancellation of deductions. In addition, the chief stated that as a result of the errors we brought to Fleet's attention, it has assigned a specific staff person to monitor the monthly payments for employees who have deductions for parking fees to ensure that these owed amounts are being collected.

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 letter report.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE
State Auditor

Staff: Denise L. Vose, CPA, Audit Principal
Bryan Beyer
Natalya Fedorova
Nick Kolitsos, MBA
Anh Pham, MS

cc: Members of the Legislature
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