# DEPARTMENT OF GENERAL SERVICES

## *Opportunities Exist Within the Office of Fleet Administration to Reduce Costs*

**REPORT NUMBER 2004-113, JULY 2005**

*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 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.***

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**Department of General Services' response as of July 2006**

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits (bureau) conduct an audit of state-owned vehicles with a focus on the cost-effectiveness of the garages that the Office of Fleet Administration (Fleet) within the Department of General Services (General Services) operates. Specifically, the audit committee asked the bureau to 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. Additionally, the audit committee asked the bureau to 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. Finally, the audit committee asked the bureau to 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. We found the following:

**Finding #1: Fleet's analyses of its cost-effectiveness indicate that it is competitive, but its analyses are limited.**

To measure its cost-effectiveness, Fleet periodically compares its rates to those of commercial rental companies. The commercial rental rates used in the 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. 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.

- ☑ ***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.***

However, Fleet lacks assurance that the rates state agencies typically pay are similar to the companies' public rates because 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. Further, the maximum contract rates used in earlier analyses do not provide for a meaningful comparison because, as Fleet acknowledges, commercial rental companies do not typically charge such high rates.

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. 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.

We recommended that 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. 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.

***General Services' Action: Partial corrective action taken.***

General Services reports that it has worked to obtain additional management information from its automated fleet management information system. Thus, Fleet is now able to more accurately compare the actual cost of operating its motor pool to the amounts that commercial rental companies charge state agencies. Additionally, according to General Services, it entered into new commercial car rental contracts that began on January 1, 2006, which include provisions for the receipt of information on actual charges incurred for the daily and weekly leasing of vehicles. General Services states that it will use this information in future cost-effectiveness studies.

**Finding #2: Existing contracts raise questions as to whether they are in the best interest of the State.**

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, the amounts that commercial rental companies actually charge can be significantly lower than the maximum rates specified in the contracts.

An individual representing two of the seven companies with which Fleet contracts 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.

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. For example, it has not 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. 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.

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 was 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 planned 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.

We recommended that before seeking additional commercial rental contracts, Fleet should do the following:

- 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.

- 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.

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

***General Services' Action: Partial corrective action taken.***

According to General Services, Fleet pursued a competitively bid process that allowed for awards to be made to one primary and one secondary car rental company instead of the previous system whereby seven different companies provided services to the State's employees. General Services states that the contracts it awarded, which are for January 2006 through December 2008, should save the State about $3 million in each of the three years. Additionally, according to General Services, unlike the contracts in place during the audit, the new commercial car rental contracts do not allow the contracted rental car company to charge customers any amount up to a maximum rate identified in their contracts. Instead, the awarded contracts require rental charges to be based on guaranteed set rates. Moreover, General Services told us that the Office of Risk and Insurance Management helped Fleet determine the bidder proposal that represented the best value to the State.

**Finding #3: Fleet has not established certain requirements and standards related to vehicle use.**

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. Without such a utilization policy, Fleet cannot ensure that its motor pool is used optimally.

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.

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.

In May 2005, Fleet's 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 expected to make its policy effective in July 2005. The chief also told us that it was 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.

To ensure that the vehicles in Fleet's motor pool are being used productively, we recommended that 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.

***General Services' Action: Partial corrective action taken.***

General Services reports that in January 2006 it issued a Management Memorandum that revised the minimum vehicle use criteria for vehicles it leases to state agencies on a long-term basis. The criteria are now a minimum of 6,000 miles or 80 percent of workdays within a six-month period. General Services states that it is now using the same minimum usage standards to assess utilization and idle time of the short-term vehicle pool.

**Finding #4: Fleet does not analyze its costs by vehicle type.**

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.

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 expected 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.

We recommended that 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.

***General Services' Action: Partial corrective action taken.***

According to General Services, Fleet is continuing to take 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. Specifically, Fleet developed a new system that provides for employee time charges to be captured in a manner that provides more useful information on tasks performed in both inspection and garage operations. In addition, General Services states that Fleet has developed management reports that identify costs by vehicle type and plans to consider this information in the development of vehicle rates and in comparisons to the costs of alternatives to the motor pool.

**Finding #5: Fleet does not periodically assess the cost-effectiveness of individual garages.**

Although Fleet operates several garages throughout the State, it 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. 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.

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 sources. As of April 2005, Fleet 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.

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, we recommended that Fleet 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.

***General Services' Action: Partial corrective action taken.***

General Services states that it has developed additional utilization and cost data that will assist in judging the efficiency and effectiveness of its garages. Additionally, General Services reports that Fleet has taken other significant actions to improve its ability to adequately monitor the efficiency and effectiveness of garage operations. Specifically, Fleet reorganized its garage operations and hired a new manager over those operations who has a strong background in managing fleet programs, including the gathering of data that will allow the cost-effectiveness of the individual garages to be more accurately evaluated.

**Finding #6: Fleet does not measure the cost-effectiveness of its repair and maintenance services.**

Fleet provides maintenance and repair services to its motor pool and agency-owned vehicles at its 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.

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. 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 Fleet priority 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 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.

We recommended that Fleet should continue with its plan to track the time of its garage employees by task to determine the cost of its repair and maintenance services and that Fleet should compare its costs to the amount that commercial repair shops would charge for the services.

***General Services' Action: Partial corrective action taken.***

General Services told us that a new system for tracking tasks was installed for use within Fleet in October 2005. According to General Services, garage staff and Fleet's asset management staff were trained and actively began using the new system in January 2006. General Services states that as sufficient historical data becomes available, the resulting information will be used within future cost-effectiveness studies.

**Finding #7: Opportunities exist to improve Fleet's purchase approval process.**

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. 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 February 2003, 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. 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.

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.

***General Services' Action: Partial corrective action taken.***

General Services stated that it issued in January 2006 a Management Memorandum that requires state agencies requesting vehicle purchases to provide more detailed information on their underutilized vehicles as part of Fleet's acquisition request review and approval process. According to General Services, this information is to include explanations on why any underutilized vehicles that may exist cannot fulfill the agency's needs and a certification from the agency's fiscal officer that the requested acquisition is the most cost-effective solution to meet the agency's transportation needs.

**Finding #8: Fleet's minimum-use requirement for state agencies may be too low.**

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. 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'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. 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.

Further, 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 would revise the policy in the near future.

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.

***General Services' Action: Partial corrective action taken.***

General Services reports that Fleet completed its review of minimum use requirements and in January 2006 General Services issued a Management Memorandum advising state agencies of new criteria governing the minimum use of all vehicles. The minimum-use requirements increased to a minimum of 6,000 miles or vehicle use of 80 percent of workdays within a six-month period. According to General Services, it developed the new criteria after reviewing the minimum-use requirements used by the federal General Services Administration and nine other states.

**Finding #9: 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. 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. Although various factors contributed to the fund deficit, we focused on two that were within Fleet's control.

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. Fleet's chief told us that in the near future, Fleet intends to stop paying the entire cost of shuttling passengers to and from peripheral lots.

Another factor contributing to the parking fund's losses is 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, 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 has developed a process to reconcile its parking database information with its revenue on a monthly basis. Such reconciliation should help detect these problems should they recur in the future.

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.

***General Services' Action: Partial corrective action taken.***

According to General Services, since September 1, 2005, the parking fund administered by Fleet has not been used to purchase transit passes to shuttle parkers to and from peripheral parking lots. General Services also indicates that, based upon Fleet's comprehensive evaluation of information on potential nonpaying parkers that it developed in November 2004, it identified 49 parkers as owing unpaid parking fees of about $45,000. General Services commented that, as of January 2006, each of the 49 employees had either paid their outstanding balance or established a monthly repayment plan. Further, General Services states that Fleet has implemented additional procedures to ensure that parking funds are maximized. As part of this process, Fleet is continuing to fill parking spaces the same week as they become vacant except in the peripheral lots.