



A REPORT
TO THE
MONTANA
LEGISLATURE

PERFORMANCE AUDIT

State Vehicle Fleet Management

Multiple Agencies

SEPTEMBER 2009

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DIVISION

09P-04

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September 2009

The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit of State Vehicle Fleet Management. Montana's vehicle fleet management is decentralized, with each agency responsible for its respective fleet.

This report provides the legislature information and recommendations regarding the need for a fleet management information system, optimizing vehicle utilization, assignment of vehicles to individual employees, preventive maintenance intervals and controls, commuting use of state vehicles, improving controls regarding driver requirements, and improving the vehicle procurement process.

We wish to express our appreciation to agency personnel for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Department of Corrections	Mike Ferriter, Director
Department of Environmental Quality	Richard Opper, Director
Department of Fish, Wildlife and Parks	Joe Maurier, Director
Department of Labor and Industry	Keith Kelly, Commissioner
Department of Public Health and Human Services	Anna Whiting Sorrell, Director
Montana Department of Transportation	Jim Lynch, Director

REPORT SUMMARY

State Vehicle Fleet Management

Agencies lack important management information regarding their vehicles and opportunities exist to decrease costs associated with the state fleet.

Audit Findings

Vehicle transportation is vital to accomplishing many of the tasks of state government and vehicles serve a wide variety of needs—from occasional basic highway transportation to routine off-road use. Each state agency is responsible for determining how best to satisfy its transportation needs. State government spent approximately \$27 million on vehicle and fuel purchases in fiscal year 2008 and has a fleet of approximately 5,000 passenger vehicles. Our audit sought to assess the effectiveness of management practices over this fleet by examining management activities at six state agencies, which were selected to provide a broad spectrum of fleet management practices. We also examined purchasing activities at the Department of Administration (DOA).

Our first objective considered whether agencies had ready access to fleet management information. We found state government lacks a system for collecting essential information. Only two agencies used department-wide tools for managing agency fleets. Even basic functions such as compiling a comprehensive vehicle inventory are challenging. Executive branch leadership has recognized that the information available to agencies does not promote effective management and has agreed to purchase a fleet management information tool for use by all agencies. Enhanced information can be used by agencies to ease compliance with existing state law and may promote more effective fleet management.

Determining whether agencies enacted fleet management controls was our second objective. Agency controls that help ensure efficient and effective fleet management have been lacking in some key areas. Audit work indicated some state vehicles are underutilized—driven few miles, used infrequently, or otherwise of questionable value to the state. Poor utilization increases expenses with little or no benefit to agencies. Low utilization rates may also be caused by assignment of vehicles to individual employees. Some employees may need permanently assigned vehicles to accomplish job duties, but we noted a lack of clear criteria for evaluating the need for permanent vehicle assignments which has resulted in inconsistent assignment practices. Establishing guidelines for utilization and assignment can reduce fleet costs through reduction of unnecessary vehicles.

Vehicle operation expenses have also been higher than necessary when employees commute in state vehicles and maintenance is performed more frequently than

recommended by manufacturers. House Bill 602 passed by the 2009 Legislature addresses which employees are allowed to commute in state vehicles and provides a new control over the practice; however, the employees who commute in state vehicles may need to be assessed a taxable benefit, and further guidance in this area is needed.

State administrative rules set more stringent requirements for operating state vehicles than for the general driving population. Employees are responsible for self-reporting driving violations. This type of control is unlikely to be effective in ensuring the safe operation of state vehicles. New opportunities for automated checks of state employee driver records may provide a more effective method of ensuring safe state vehicle operation.

Our final objective was to determine whether the Department of Administration's (DOA) vehicle procurement process ensures compliance with state laws and provides assurance vehicle purchases are cost-effective. Controls are in place to ensure fuel economy standards are met and prices obtained are reasonable. However, DOA does not consider estimated fuel costs for vehicle purchases unless requested by agencies submitting purchase requisitions. Because life-cycle fuel costs are not always included in the procurement process, some agencies may purchase vehicles that do not minimize overall costs.

Audit Recommendations

Audit recommendations addressed improvements needed to more effectively manage the state's fleet. Four recommendations were to DOA and three recommendations were to sampled agencies. Recommendations address:

- ◆ Implementing a fleet management information system and ensuring data collection controls are in place.
- ◆ Establishing utilization guidelines that consider annual vehicle mileage and other criteria for determining the need for state-owned vehicles.
- ◆ Developing assignment criteria and controls for monitoring permanent vehicle assignments to individual employees.
- ◆ Developing uniform statewide guidelines for administering IRS taxable commuting benefits.
- ◆ Adopting maintenance standards consistent with manufacturers' recommendations and using management information systems to ensure maintenance is completed.
- ◆ Exploring driver requirement controls to ensure employee compliance with state law and rules related to driver requirements.
- ◆ Revising the vehicle procurement process to apply a fuel cost calculation to each bid evaluation where fuel economy estimates are available.

Chapter I – Introduction

Introduction

Motor vehicles are essential assets for agencies to achieve their missions and objectives. Vehicle uses widely vary, ranging from day use vehicles for short-term travel needs such as attending meetings or training, to long-term needs for employees traveling throughout the state to perform their day-to-day assigned duties. When an employee requires a vehicle, an agency has several transportation options—it may reimburse the employee for using a personally-provided vehicle, it may rent a vehicle on a daily basis from the state motor pool or private rental service, it may lease a vehicle from the state motor pool, or it may purchase a vehicle. According to the state travel policy, agencies are responsible for selecting the most economical method of transportation. The Legislative Audit Committee prioritized a performance audit to examine management of the state's vehicle fleet.

Audit Scope

Audit scope focused on management efforts over vehicles that are owned by the state and included vehicles owned by individual agencies or leased by agencies from the motor pool. It included passenger-type vehicles such as sedans, light trucks, small vans, and SUVs. Fleet management areas evaluated included general management information necessary for managing a fleet, asset management such as vehicle utilization and procurement, and vehicle fleet operations. We examined vehicle information for fiscal year 2008 and agency practices for fiscal years 2008 and 2009.

Agencies Reviewed

We selected six executive branch agencies for review. Agencies were selected to obtain a cross-section of agencies with varying fleet sizes and management efforts identified during audit planning. Executive branch agencies selected for review were:

- ◆ Department of Fish, Wildlife and Parks (FWP)
- ◆ Department of Corrections (DOC)
- ◆ Department of Labor and Industry (DLI)
- ◆ Department of Public Health and Human Services (DPHHS)
- ◆ Montana Department of Transportation (MDT)
- ◆ Department of Environmental Quality (DEQ)

Audit Objectives

To examine management of the state's vehicle fleet, we developed three objectives.

1. Determine whether state agencies have useful fleet management information to make informed management decisions, and for complying with state law reporting requirements and overall management of agency fleets.
2. Determine whether agencies have controls in place for the effective and efficient management of the state vehicle fleet.
3. Determine whether the Department of Administration's vehicle procurement process ensures compliance with state laws and provides assurance vehicle purchases are cost-effective.

Audit Methodologies

To address the three objectives, we conducted the following audit work:

- ◆ Reviewed a sample of 109 vehicles from six state agencies located in Helena and satellite offices throughout the state.
- ◆ Reviewed MDT motor pool records related to agency usage of leased motor pool vehicles.
- ◆ Analyzed agencies' records related to fleet management practices.
- ◆ Examined vehicle purchasing practices at the Department of Administration (DOA) for the fall 2008 purchasing cycle.
- ◆ Compared purchase prices obtained during the procurement process to other reported prices.
- ◆ Reviewed and examined compliance with state laws, administrative rules, and state policy related to fleet management.
- ◆ Reviewed documentation related to the Governor's initiatives pertaining to energy conservation and how they relate to fleet management.
- ◆ Interviewed agency personnel about fleet management practices and vehicle use.
- ◆ Reviewed other states, federal government, and industry reports and documentation regarding fleet management practices.
- ◆ Reviewed fleet management information systems used by two state agencies.

Review of Sample of Vehicles

The state does not have a single comprehensive source of data or inventory for identifying the number of state-owned passenger vehicles. Consequently, we were not able to select a random sample based on a complete population of all passenger vehicles. Instead, we randomly selected vehicles from each of the six agencies studied. We also reviewed additional vehicles during fieldwork as time and resources allowed to provide us with a broader overview of fleet management practices.

Areas for Further Study

During the audit we identified two areas we believe warrant further consideration for future performance audit work.

Vehicle Fleet Management at the Montana University System

We conducted limited audit work at two Montana University System (MUS) campuses: Montana State University–Bozeman and The University of Montana–Missoula. While there appear to be similar problems identifying the number of MUS vehicles, they have an estimated 750 vehicles. Based on the limited audit work conducted at these two campuses, we identified some fleet management activities that were similar to issues we identified with state agencies, which are presented in this report. A comprehensive examination of MUS fleet management activities would necessitate looking at a larger sample of MUS campuses. Audit work could examine vehicle utilization, MUS assignments of vehicles, preventive maintenance activities, and take-home vehicle use.

If the recommendations of this report are implemented, fleet management improvements may also be realized by the MUS as the Board of Regents have adopted the state vehicle use policy specified in administrative rules.

Controls Over Fuel Purchasing Cards

The state spent more than \$17 million on gas and diesel for fiscal year 2008. The state currently has contracts with two fuel purchasing card vendors. Agencies may choose which fuel purchasing card to use. A performance audit could examine whether contracting with a single vendor would be preferable to having two vendors. Additionally, audit work could examine whether there are adequate controls to prevent misuse of fuel cards.

Report Organization

The remainder of this report is organized into four chapters. Chapter II provides background, including an overview of an effective fleet management system and includes general information about the state's vehicle fleet and operations.

Chapter III presents our findings and a recommendation related to management information systems. Chapter IV addresses our findings related to fleet management policies and controls and contains five recommendations. Finally, Chapter V presents conclusions and a recommendation related to state vehicle procurement, which is a component of fleet management.

Recommendations are made to DOA for areas in which it has been granted rulemaking authority and for procurement. Other recommendations to improve controls are made to the agencies within our sample, though it is likely that other agencies would also benefit from implementing the recommendations.

CHAPTER II – BACKGROUND

Introduction

Montana state government owns approximately 5,000 passenger-type vehicles such as passenger cars, light trucks, SUVs, and small passenger vans. This chapter provides background information about this portion of the state's vehicle fleet and an overview of the components of an effective fleet management system.

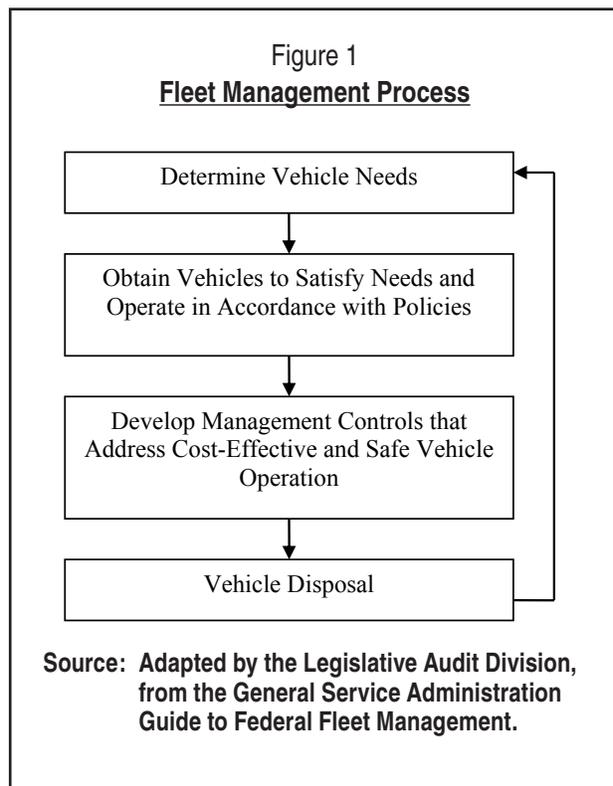
What Is Fleet Management?

Fleet management is an organized system of policies, procedures, and controls governing a set of vehicles. The fleet management process begins with determining the vehicle needs of an organization and purchasing vehicles. Once purchased, focus shifts to ensuring cost-effective vehicle utilization and operating and maintaining vehicles to maximize their useful life, and ends with the disposal of vehicles. This process is described in Figure 1.

We reviewed federal, state and private guidelines related to effective fleet management. The overriding goals of fleet management are to minimize the overall cost of vehicle travel and the cost-per-mile of travel over the life of individual vehicles. These are the types of questions that should be able to be answered if an effective fleet management system is in place:

- ◆ Do we have the right number of vehicles?
- ◆ Do we have the right types of vehicles?
- ◆ Are vehicles operated safely?
- ◆ Are vehicles purchased and operated in a manner which minimizes costs?
- ◆ Does misuse or abuse of vehicles occur?

Audit work focused on examining Montana state government controls used to address these types of questions.



Effective Fleet Management Is Complex

Owning and operating vehicles may seem simple—after all, many people do it. But effectively managing an entire fleet of vehicles in a way which minimizes costs is not easy. Myriad support institutions have been developed over time to help fleet managers achieve success, including:

- ◆ Numerous national and regional networking and resource organizations, including several that specialize in public fleet management.
- ◆ A broad range of consultants who focus on providing fleet management advice.
- ◆ Numerous information systems.
- ◆ Certification programs that provide training and verification of expertise in up to eight distinct disciplines of fleet management.
- ◆ Annual conferences for public fleet management professionals.

By adhering to best management practices and implementing practices similar to those included in this report, public fleet managers have been able to achieve significant cost savings. For example, Palm Beach County, Florida operates a fleet of just under 5,000 vehicles and was able to achieve an estimated savings of about \$6 million in 2008 by eliminating underutilized vehicles.

State Government Has a Decentralized Fleet Management System

We found the state of Montana has decentralized oversight over its fleet vehicles. Each agency is able to purchase and manage its own fleet. Agencies may also rent or lease vehicles from the Montana Department of Transportation (MDT) motor pool. Based on available data, we estimated agencies own approximately 4,000 vehicles, which represents approximately 80 percent of the state's fleet.

Agencies leased 823 vehicles from the MDT motor pool in 2008 for long-term use. Agencies determine the types and numbers of vehicles for leasing and are responsible for monitoring vehicle utilization, though MDT reserves the right to terminate leases based on inefficient use or other factors.

For short-term vehicle needs, agencies can also rent vehicles from the MDT motor pool. In 2008, the motor pool had 199 vehicles available to agencies for short-term rentals. MDT allows agencies to rent a motor pool vehicle for up to 14 days at a time. Agencies may also meet their short-term needs by renting vehicles from a private vehicle rental agency or reimbursing employees for the use of personally-provided vehicles.

Cost and Size of the State Vehicle Fleet

Montana's vehicle fleet represents a substantial investment. According to the state's accounting records, the state of Montana spent \$9.9 million on vehicle purchases in fiscal year 2008. The State of Montana spent approximately \$17 million for fuel and \$3.2 million for maintenance and repairs during fiscal year 2008.

Montana Has a Large Fleet of State Vehicles

Type of Vehicle	2006	2007	2008	2009*
Passenger Cars	2,384	2,141	2,337	2,332
Light Trucks	2,484	2,706	2,728	2,452
Total	4,868	4,847	5,065	4,784

*As of January 2009
Source: Compiled by the Legislative Audit Division from Department of Administration records.

According to the Risk Management and Tort Defense Division (RMTD) within the Department of Administration (DOA), approximately 5,000 vehicles were insured annually between fiscal years 2006 and 2009. This estimate is based on vehicle information provided to RMTD by all

state agencies, including the Montana University System. Table 1 provides information on the numbers of vehicles insured by RMTD for fiscal years 2006 through 2009.

State Laws, Administrative Rules, and State Policies

To define Montana's fleet management practices, there are a number of existing statutes, rules and policies pertaining to the fleet, examples of which are summarized below:

- ◆ All requisitions for new vehicle purchases must be submitted to DOA (§2-17-403, MCA)
- ◆ A plan is required to ensure new vehicle purchases meet certain fuel efficiency standards (§2-17-416, MCA)
- ◆ Each agency shall maintain operating history records on each agency vehicle and prepare an annual summary (§2-17-422, MCA)
- ◆ Rulemaking authority is granted to DOA regarding the use of state vehicles (§2-17-424, MCA)
- ◆ The 2009 Legislature passed HB 602 (which became effective upon passage but was not yet codified as of July 2009), which statutorily defines acceptable commuting practices and provides a control over commuting in state vehicles.
- ◆ Authorized drivers and allowable uses of state vehicles are defined, including limited personal use (ARM 2.6.203)

- ◆ Driver requirements are set forth, including a limitation on the number of accumulated conviction points (ARM 2.6.205)
- ◆ The State Travel Policy provides guidelines regarding reimbursement for the use of employee-provided vehicles and states that “when considering state travel...you should keep transportation costs as low as possible.” (MOM Vol. 1 Chapter 0300)

Effective Fleet Management Is Essential

Because responsibility for vehicles is decentralized and vehicles are located throughout the state, effective fleet management is challenging. Montana state government spends more than \$30 million annually on acquiring and operating its fleet. The state needs to actively manage the fleet by ensuring it incorporates the components of effective fleet management. The remainder of the report presents audit findings, conclusions, and provides recommendations for improving the state’s fleet management system.

CHAPTER III – Management Data Is Key to an Effective and Efficient Fleet Management System

Introduction

Our first objective was related to the availability of management information necessary for management of the state vehicle fleet. We reviewed the type of information available about the vehicles owned and operated at the six agencies within our sample. This chapter presents our findings and a recommendation related to this objective.

Fleet Management Information Systems

To make informed decisions about a fleet of vehicles, agency managers must have accurate and reliable information about the fleet. To date, most agencies have not developed management information systems for recording, tracking, and reporting on fleet management activities, either as required by state law, §2-17-422, MCA, or recommended by best management practices for fleet management. The law requires agencies to track operating history information for all agency vehicles, stating records must show the purchase price of the vehicle and the items of expense incurred in the operation of the vehicle, including the expenses of gas, oil, repairs, labor, storage, and service. A complete summary of the operating cost and history record of all state-owned or leased vehicles and trucks must be prepared for each fiscal year.

Two agencies in our sample, the Department of Fish, Wildlife and Parks (FWP) and the Montana Department of Transportation (MDT), have implemented fleet management information systems. Four agencies in our sample have developed varying degrees of data collection tools, but these systems appear to be primarily used for inventory purposes with limited capabilities for tracking comprehensive data.

During audit work, the Governor's Office of Budget and Program Planning began the process of obtaining a fleet management information system and delegated responsibility for identifying a system to MDT. Effective July 2009, an agreement to purchase a system was signed. The information system is already used by FWP and MDT. The new contract calls for web-based fleet management products to be made available to all state agencies, including the opportunity for use by the Montana University System. The total cost of the contract will be approximately \$69,000 during fiscal year 2010.

Lack of Information Hinders Effective Management

As discussed in the next chapter, the lack of available data has impacted managerial ability to effectively oversee the vehicle fleet. Agency managers are often unable to track useful information such as cost-per-mile by vehicle, identify exceptions to acceptable standards, or perform other useful managerial analysis. The operating history law, §2-17-422, MCA, requires that agencies track certain information per vehicle, but without an information system it appears that some agencies in our sample have difficulty tracking and reporting such information. The law is also unclear on what is to be done with the annual summaries, which limits the usefulness of such reports. Agencies track general vehicle cost information such as vehicle purchase and lease costs, repair and maintenance costs, and fuel costs for financial reporting purposes. However, this information is often available only in the aggregate and has limited usefulness for fleet management. Some agencies did not track maintenance costs and histories, and most agencies could not provide specific information about vehicle usage, such as annual miles driven or repair and maintenance costs for individual vehicles. Not all agencies collect needed fleet management data and report on fleet costs for the fiscal year. Limited vehicle information and data prevents agencies from effectively and efficiently managing their vehicle fleets.

Comprehensive Vehicle Inventory Unavailable

The state does not have a comprehensive and accurate vehicle inventory. As noted in Chapter I, our audit methodology was limited because of a lack of management information. We attempted to obtain basic inventory data for passenger-type vehicles from several sources. The Risk Management and Tort Defense Division (RMTD) within DOA has aggregate vehicle numbers, but no information on individual vehicles. We also attempted to use Department of Justice vehicle registration information to identify a vehicle inventory, but the information provided was significantly less than RMTD vehicle numbers. Audit work also raised questions about the reliability of vehicle inventories submitted to RMTD.

Opportunities to Improve Data Collection

Based on our review of state law and federal fleet management information guidelines, management information collected should allow agencies and the state as a whole to track and report on vehicle life-cycle information that, at a minimum, includes:

- ◆ Basic inventory data, including types of vehicles, vehicle ownership, and assignments to agency units
- ◆ Monthly and annual vehicle miles driven
- ◆ Days a vehicle is used
- ◆ Vehicle operating costs

- ◆ Fuel usage and costs
- ◆ Permanently assigned vehicle data
- ◆ Commuting data, including commuting miles and work miles
- ◆ Comprehensive maintenance and repair histories and costs
- ◆ Vehicle disposal information

Since management information is such an important element of a control system, agencies should develop and implement data collection requirements that ensure agencies collect and report information as required by state law and as necessary for efficient and effective fleet management.

RECOMMENDATION #1

We recommend that the agencies in our sample:

- A. *Implement a fleet management information system.*
 - B. *Ensure data collection procedures and controls are in place that comply with existing law and promote effective and efficient fleet management.*
-

Chapter IV – Fleet Management Policies and Controls

Introduction

Our second objective related to determining whether management controls are in place for the effective and efficient management of the state's vehicle fleet. This chapter addresses this audit objective and presents the results of our audit work.

We reviewed management of the state vehicle fleet and identified opportunities to improve effectiveness and efficiency in the following five areas:

- ◆ Vehicle utilization
- ◆ Permanently assigned vehicles
- ◆ Preventive maintenance frequency
- ◆ Commuting/take-home vehicles
- ◆ Driver requirements

The following sections discuss our audit findings in each of these areas, with recommendations for improving policies and controls.

Overall Lack of Policy and Controls for State Government Fleet Management

Numerous efforts have been made to address state vehicle use but few statewide policies have been issued specifically addressing utilization, vehicle assignment, and maintenance intervals. In the absence of rules or policies, agencies are not apt to develop controls. We found the result has been low utilization, and inconsistencies in vehicle assignment and maintenance intervals—all of which have the potential to increase the cost of the state's vehicle fleet. Infrequent utilization increases costs by unnecessarily increasing the size of the fleet; inconsistent assignment has the potential to increase costs by assigning vehicles to employees who do not need them and may in turn cause poor utilization rates. Inconsistent assignment practices also have the potential to create ineffective job performance if employees who require a vehicle are not assigned one. Finally, performing maintenance at intervals more frequent than manufacturer recommendations unnecessarily increases overall maintenance costs.

Commuting in state vehicles also increases vehicle operating costs. Administrative rules govern allowable commuting use and 2009 legislation enacted new requirements regarding commuting and also introduced a new control to be used by agencies. However, state policies do not provide guidance on when an agency must assess a

taxable benefit for employees who use a state vehicle for home-to-work transportation. Agencies may not be assessing taxable benefits to employees as required by IRS regulations.

Agencies generally do not actively check the validity of driver's licenses or conviction points accrued by employees who drive state vehicles; instead they rely upon employees to self-report violations. This self-reporting control is in compliance with administrative rule (ARM 2.6.205), but more effective rules and controls are possible. The burden of reporting violations has been placed upon state employees because it has been impractical for agencies to perform checks due to time and resource constraints. The existing rule does not provide maximum assurance that the drivers of state vehicles drive safely.

As illustrated in this chapter, audit testing shows an overall lack of policies and controls regarding the cost-effective use of vehicles and that existing rules and controls over driver requirements may be improved. Where efforts have been made to address economy, they have not always applied to the entire state fleet or have provided ineffective controls. Because Department of Administration (DOA) has been granted rulemaking authority over vehicle use it should establish or improve administrative rules and state policy addressing these issues on a statewide basis, and agencies should develop criteria and implement controls to improve cost-effective vehicle use.

CONCLUSION

Fleet management policies and controls should be strengthened.

Vehicle Utilization

Vehicle utilization is important because underutilized vehicles are an unnecessary cost to the state. They represent situations in which a more affordable transportation alternative exists. Therefore, addressing vehicle utilization must start at the very beginning of the fleet management process—the point at which an agency determines it needs a vehicle and how best to satisfy that need. The need for a vehicle may be based upon a variety of factors, the most common of which is the amount of miles a vehicle is driven over a given period of time. Other factors may also cause an agency to require a vehicle, including frequent use, privacy concerns that would render a personal vehicle inappropriate, the storage of specialized equipment, and other factors.

Many State Vehicles are Underutilized

Past attempts to improve utilization rates appear to have been ineffective. Of the motor pool leases we reviewed, 148 of 415 (36 percent) vehicles were driven less than 10,000 miles annually. Table 2 presents annual mileage information for the six agencies in our sample that leased vehicles from the Montana Department of Transportation (MDT) motor pool in 2008.

Table 2
Agency Vehicle Annual Mileage of Leased Agency Vehicles
Calendar Year 2008

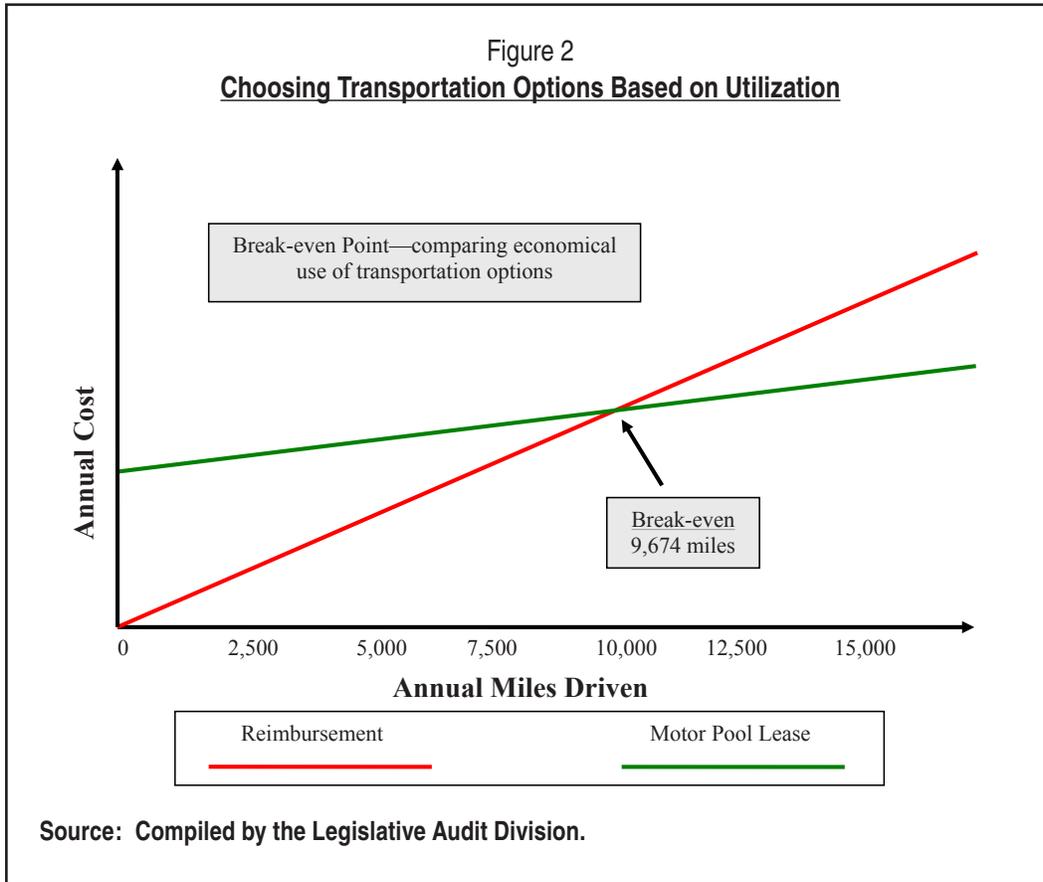
<u>Leasing Agency</u>	<u>Leased Vehicles</u>	<u>Average Annual Miles</u>	<u>Vehicles with < 10,000 Annual Miles</u>
Department of Corrections	157	10,642	80 (51%)
Department of Fish, Wildlife and Parks	8	20,218	1 (12%)
Department of Public Health and Human Services	152	15,946	27 (18%)
Department of Environmental Quality	32	12,508	11 (34%)
Department of Labor and Industry	61	11,718	29 (48%)
Montana Department of Transportation	5	17,527	0 (0%)

Source Compiled by the Legislative Audit Division from Montana Department of Transportation records.

For vehicles that are underutilized, agencies may be experiencing higher than necessary costs. Agencies should examine the cost-effectiveness of transportation alternatives such as increased sharing of the vehicles, using rentals from the daily motor pool fleet or private rental services, or reimbursing employees for the use of personally-provided vehicles. According to the State Travel Policy, agencies must seek to minimize travel costs. Agencies should seek to identify transportation options that are both suitable to the employee and in the best interests of the state.

Determining Cost Effectiveness

To compare the costs of leasing a vehicle from the motor pool to reimbursing an employee for use we performed a break-even analysis. We considered the costs of reimbursement at the high rate and the annual lease cost for a mid-size sedan. Employees may be reimbursed at the high rate (defined as the rate set by the Internal Revenue Service for mileage reimbursement—55 cents per mile in fiscal year 2009) if motor pool vehicles are not available, if it is in the best interests of the state, or if fewer than 25 miles are driven in a calendar day. At the high rate, it is more economical to reimburse an employee than to lease if a vehicle is driven fewer than 9,674 miles annually. The results are presented graphically in Figure 2.



As noted earlier, we identified 148 leased vehicles driven less than 10,000 annual miles. Agencies should examine the cost-effectiveness of these leases.

Low Mileage Vehicles May Be Necessary

Mileage-based utilization standards may generally serve as the basis for determining the need for a vehicle, but mileage should not be the only factor considered. Vehicles may prove essential to a state job function even if used for relatively few miles. Other reasons a vehicle may be necessary include:

- ◆ Frequency of use
- ◆ Storage of specialized equipment
- ◆ Emergency response

The necessity of a vehicle may be based upon a combination of the mileage driven and how essential it is to accomplishing a task.

Interviews with agency personnel indicated some vehicles within our sample are not regularly used. We noted 7 of 109 (6 percent) vehicles were used infrequently, which

we defined as less than one day a month. We also identified one vehicle that had not been driven for approximately one year. In another example, agency management justified keeping a vehicle for driving to occasional meetings within the city of Helena, although the vehicle had not been used for about three months.

Past Efforts to Improve Utilization

Numerous attempts have been made to address the utilization of Montana's vehicle fleet. Most of the efforts have been aimed at vehicles which are leased from the state motor pool, though these vehicles compose the minority of the state fleet and have addressed only the mileage driven by a vehicle. The utilization policies have typically placed the burden of determining need upon the MDT, though that agency is not in a position to evaluate nonmileage-based needs for a vehicle. Efforts to address utilization include:

- ◆ State policy (MOM 1-0520.02) states that leased vehicles must “be able to maintain, on a quarterly basis, 80% of the mileage of a comparable class in the motor pool fleet.”
- ◆ State law (§2-17-412(2), MCA) states that motor pool leased vehicles “must be equitably transferred to the custody of those agencies that have need of vehicles as demonstrated by use records.”
- ◆ In response to 2003 legislation, the MDT and the Office of Budget and Program Planning (OBPP) developed a set of leasing preference guidelines which suggest that an agency should drive a leased vehicle a minimum of 10,000 miles annually.
- ◆ In its lease agreements, the MDT maintains the right to terminate leases due to “inefficient use” of vehicles.

Some agencies in Montana and other state and federal guidelines all suggest a minimum mileage threshold. Of the agencies and states we studied, 10,000 miles was considered to be a minimum number of miles, with many requiring higher utilization rates. In one state, the legislature created an oversight committee which reviews the need for all vehicles which do not meet a 12,000 mileage threshold—agencies must submit a “clear and convincing case” in order to retain a vehicle which fails to meet the minimum standard.

Low Utilization Rates Increase Fleet Costs

Clear utilization criteria is essential to making good decisions to acquire and retain vehicles based on a validated need. Four of the six agencies we reviewed do not have formal processes for reviewing vehicle utilization from an agency-wide fleet perspective. DOA is responsible for establishing statewide rules and policies concerning vehicle use and therefore should establish formal utilization criteria. Agencies are responsible for ensuring utilization criteria are followed.

RECOMMENDATION #2

We recommend the Department of Administration establish utilization guidelines that include a minimum mileage-based threshold and other criteria for determining appropriate utilization of state vehicles.

Permanent Vehicle Assignment

There are occasions when agencies permanently assign vehicles to individual agency employees or job positions because the use of pooled vehicles is not practical, feasible, or efficient given an employee's work location, responsibilities, and job requirements. Examples of common permanent assignments are for law enforcement personnel who must be able to respond to emergencies on an on-call basis or inspectors who travel throughout the state. However, permanent assignments need to be carefully considered because they can increase the number of agency vehicles. A federal Department of the Interior vehicle audit found that personal vehicle assignment was strongly correlated to underutilization. Audit work included determining whether agencies have policies and criteria in place to provide assurance permanently assigned vehicles were essential to accomplishing agency missions.

Formal Assignment Criteria Is Often Lacking

Four of six agencies in our sample did not have formal or clearly defined criteria or policies for making permanent vehicle assignment decisions. For example, one agency had general criteria based on whether the justification form submitted by an employee is consistent with the department's mission and operational needs of the facility or program, but the agency did not have more specific criteria based on job needs or duties. The Department of Fish, Wildlife and Parks (FWP) require vehicle assignments meet two of three established criteria, which are:

An employee must:

- ◆ Drive more than 10,000 miles a year.
- ◆ Be assigned a remote duty location that does not allow for use of a shared pool vehicle.
- ◆ Be required to be on immediate call response.

Similarly, MDT management stated it required employees with permanently assigned vehicles to drive at least 10,000-15,000 miles annually to retain a vehicle. Otherwise, the vehicle is reassigned for other purposes and employees must use vehicles from the agency's vehicle pool.

Assignment Practices Are Inconsistent

Across the agencies we sampled, we identified 31 of 109 (28 percent) sampled vehicles that were permanently assigned to individuals or job positions. Without clear criteria for assigning vehicles, there is less assurance vehicles will be assigned based on need given available resources. We noted instances where the need for a vehicle appeared to be inconsistent with justifications. At one agency, for example, we noted the following:

- ◆ One employee who had been assigned a vehicle said it was not necessary because he could pick up a vehicle from the office and still respond to an incident within agency response time set in department policy.
- ◆ One manager turned in a permanently assigned vehicle to the agency's vehicle pool because it was seldom needed for emergency response. This was an employee decision rather than an agency decision.
- ◆ We noted one employee whose job duties had changed and no longer had immediate response duties, but was still assigned a vehicle.
- ◆ One employee stated vehicle assignments consider employee seniority as a decision factor.
- ◆ We noted for employees with the same job duties, some are permanently assigned vehicles while others use agency pool vehicles.
- ◆ We also noted examples of employees driving relatively few miles annually with one vehicle driven approximately 6,000 miles and another vehicle driven approximately 3,400 miles annually.

Inconsistent Assignment May Increase Costs, Decrease Effectiveness

Overall, we found agencies may have employees who are assigned vehicles that are not necessary for accomplishing job duties. Inconsistent assignment practices also have the potential to create ineffective job performance if employees who do require a vehicle are not assigned one. Four of six agencies we reviewed had not implemented formal criteria for making vehicle assignments. Because the reasons making assignment necessary may vary by agency, a set of criteria should be tailored to agency needs.

RECOMMENDATION #3

We recommend agencies in our sample develop assignment criteria and controls for monitoring permanent vehicle assignments.

Preventive Maintenance

Regular preventive maintenance is a requirement to ensure the safety and durability of vehicles. If it is performed more frequently than manufacturer recommendations, unnecessary costs may be incurred. Manufacturer standards we reviewed generally recommended preventive maintenance be completed every 5,000 miles. We also noted some manufacturers recommended less frequent preventive maintenance for some vehicles, ranging from 7,500-10,000 miles.

Maintenance May Be Performed Too Frequently

Audit work identified variations in agency personnel following manufacturers recommended preventive maintenance schedules. Some employees we interviewed indicated preventive maintenance was performed on a 3,000 mile schedule and others were on a 5,000 mile schedule. A 3,000 mile interval is generally more frequent than recommended for new vehicles.

Agencies can reduce costs by following manufacturer standards for preventive maintenance rather than performing it more frequently than recommended. To estimate potential savings, we conducted an analysis of the impact of increasing the maintenance interval from 3,000-5,000 miles. We used an estimated cost of \$36 for a standard oil change based on quotes we obtained from vehicle dealers and independent businesses. By following the manufacturer recommendations, agencies would save approximately \$384 per vehicle over an 80,000 mile vehicle lifespan. For a 100,000 mile vehicle lifespan, agencies would save about \$480 dollars per vehicle. For a fleet of vehicles, the potential savings can be significant. For example, one program with 56 vehicles used 3,000 miles as the standard for preventive maintenance. Extending the frequency to the manufacturer's recommended standard would result in savings of almost \$27,000 if the lifespan of agency vehicles was 100,000 miles.

Lack of Timely Maintenance May Decrease Vehicle Safety and Durability

There are two primary objectives of an effective preventive maintenance program. As discussed above, one objective is to minimize the costs of preventive maintenance. The second is to ensure preventive maintenance is performed on a regular basis to preserve and protect the state's investment in its vehicle fleet. We conducted testing to determine whether preventive maintenance was being performed on a regular basis on state vehicles. From our testing, we were unable to verify whether preventive maintenance was completed for 26 of 109 vehicles (24 percent) in our sample. Additionally, we identified 5 of 109 vehicles (5 percent) that did not have timely preventive maintenance.

Best management practices recommend agencies have controls in place to ensure preventive maintenance is completed regularly and in accordance with manufacturer recommendations. MDT has developed such essential controls. Its fleet management system notifies MDT and agency personnel (if a vehicle is leased by an agency) when preventive maintenance is due. MDT personnel can also easily review electronic records to identify vehicles that have not had scheduled preventive maintenance. Regular and timely vehicle maintenance reduces the likelihood that vehicles will be idle while waiting for preventable repairs and maintenance, which also impacts agencies' abilities to complete their missions. Other agencies rely on informal maintenance controls that are generally available only to the vehicle's driver, such as window stickers.

RECOMMENDATION #4

We recommend agencies in our sample:

- A. *Adopt maintenance intervals consistent with manufacturer recommendations.*
 - B. *Use management information systems to develop controls to ensure maintenance is completed as required.*
-

Commuting

Section 2-17-424, MCA, grants rulemaking authority for vehicle use to the DOA. The law specifies that rules may allow limited personal use of state vehicles. Those authorized uses are set forth in ARM 2.6.203. They allow limited commuting use if certain conditions are met, such as an employee must begin travel the next day or if the employee is subject to emergency response, on-call, or other offshift duty. The rule also requires any exception to the rules be approved by the Risk Management and Tort Defense Division (RMTD) within DOA. We did not identify RMTD authorization of exceptions to vehicle use outlined in ARMs for vehicles in our sample. RMTD staff indicated that agency employees rarely, if ever, seek exceptions to the commuting rules, though RMTD may be willing to grant exceptions if conditions warranted.

Recent Changes to Commuting Statutes and Controls

The 2009 Legislature passed House Bill 602 (HB602), which was effective upon passage and restricts the use of state-owned vehicles for commuting. HB602 limits use of commuting to employees "required to be on call for quick response to an emergency that threatens life or property and on-call duty is a specifically identified duty in the employee's position description, and employees in the position have frequently responded to emergency calls in the past 6 months." Additionally, HB602 established

new controls and requires the decision to allow commuting be documented and signed by the employee's department director and a copy be sent to the governor.

Agency Commuting Practices

Audit work included reviewing whether employee use of vehicles for commuting or take-home uses is consistent with state law and administrative rules. Of the 109 vehicles in our audit sample, we documented 16 (15 percent) vehicles used for commuting or take-home use. We identified five instances of employees authorized to use vehicles for commuting that did not appear to be consistent with administrative rule related to commuting. A sixth instance was identified where an agency authorized an employee to park a shared vehicle at home, but only use the vehicle for official business. Inconsistencies we identified are presented in the following bullets.

- ◆ In several instances, employees were authorized to commute because of concerns about vandalism in office parking areas. In one instance, an employee cited unsafe parking as a justification for commuting, but other state vehicles were parked overnight in the parking area with minimal vandalism reported.
- ◆ In one instance an employee was authorized to commute to respond to emergency situations. However, the employee commonly used personal vehicles for home to work transportation. Since the employee commonly used personal vehicles for transportation to work, it was unclear whether a permanent vehicle assignment and commuting privileges was essential to the employee's job duties.
- ◆ One employee said authorization to commute was a job retention incentive.
- ◆ We also identified an instance where an employee commuted 240 miles in a month, but drove the vehicle only 107 miles for work.

Because employee commuting increases fleet costs and the potential appearance of inappropriate use of state vehicles, there need to be policies in place when commuting or take-home use of vehicles is essential for employees to conduct official state business. As of June 2009, DOA was in the process of revising administrative rules to address recent legislative changes.

CONCLUSION

There are instances of employees commuting when it may not be essential to accomplishing job duties or missions, but recent legislative changes should address these areas.

Some Commuting Issues Not Addressed in Current Policies

When an employee is allowed to commute in an employer-provided vehicle, Internal Revenue Service (IRS) guidelines (IRS Publication 15-B) set requirements for when the employee must be assessed a taxable benefit. Under some conditions, the benefit is assessed at \$1.50 one-way for each day an employee commutes in an employer-provided vehicle. There is no state guidance interpreting the IRS guidelines regarding when employees incur a taxable benefit for using a state vehicle for home-to-work transportation.

Two agency managers stated they were unsure of when they need to assess a taxable benefit for using take-home vehicles. Some agencies may not be assessing taxable benefits to employees who use state vehicles for home-to-work transportation. There are instances of employees being treated differently for using a state vehicle for commuting. For example two agencies have allowed an employee to commute in a state vehicle based on unsafe office parking, but only one of these agencies was assessing the commuting benefit. This may result in noncompliance with IRS regulations and also result in agencies and/or employees having to pay taxable benefits.

RECOMMENDATION #5

We recommend the Department of Administration develop uniform statewide guidelines for agency use in assessing Internal Revenue Services taxable commuting benefits.

Driver Requirements

State law (§61-5-103, MCA) requires state residents to be licensed under the laws of Montana within 60 days of residing in Montana. Additionally, ARM 2.6.205 sets more stringent standards for drivers of state-owned vehicles. The rule limits the number of driving conviction points on driver records over a three-year period and also places the burden of reporting violations on the employee. Employees who exceed the allowable amount of conviction points must take a driver's safety course and eventually may be removed from duties which require driving a state vehicle.

Best management practices, according to federal General Services Administration (GSA) Guidelines, state federal agencies must have controls to identify employees authorized to operate government-owned motor vehicles. Additionally, GSA guidelines state agencies should conduct a motor vehicle records check of all new employees to discover whether an employee has a history of accidents, speeding tickets, or any other violations. Every-other-year follow-ups will also assist in identifying problem-prone drivers.

Current Practices Require Employees to Report Violations

Interviews with agency management indicated most agencies do not actively ensure employees meet driver requirements specified in statute and administrative rule. One of the six agencies in our sample requires employees show a driver license as part of employee annual job performance reviews. While this provides some assurance employees have driver licenses, it does not fully provide assurance employees comply with all driver requirements in administrative rule and that driver licenses provided are valid. Some agencies require employees to sign a document indicating they have read and understand administrative rule relating to driver requirements and that they will report any noncompliance, which meets the current requirements in administrative rule. However, this is a weak control because employees may be reluctant to report if it may result in not being able to operate a vehicle on official business, particularly if operating a motor vehicle is a job requirement.

Existing Rules and Controls Ineffective

To test whether the existing rule and control are working to ensure state employees have valid licenses and do not exceed conviction point limitations we reviewed a randomly selected sample of 33 employees who operated state vehicles. We noted one instance in which an employee did not have a valid Montana driver license. Given our limited testing, the state has a reasonable risk that other employees may not have valid Montana driver licenses or may not meet driver requirements in administrative rules. Employee noncompliance with state law and administrative rules may affect state liability if employees are involved in an accident while using a state or personal vehicle.

Historically, checking driver records was a labor intensive procedure, for both agencies and the Department of Justice (DOJ), which maintains driver records. However, agencies can now access employee driving records through the DOJ website. Additionally, the existing management information system may have capabilities for automated driver records checks, although it might require additional system programming and coordination with the DOJ and agencies. Because additional system programming might be necessary, there may be additional costs. RMTD management said they have a loss mitigation grant program that might be used to help pay for system changes through a grant.

RECOMMENDATION #6

We recommend the Department of Administration explore alternative approaches to verify drivers meet requirements.

Chapter V – New Vehicle Procurement Processes

Introduction

The State of Montana spent \$9.9 million on all vehicle purchases in fiscal year 2008, almost \$7 million of which was for new passenger cars and light trucks acquired through the Department of Administration (DOA) requisition process. This represents a significant investment of state resources.

Our final audit objective was to determine whether the DOA's vehicle procurement process ensures compliance with state laws and provides assurance vehicle purchases are cost-effective. Procurement-related audit work focused on new vehicles purchased during the fall 2008 bidding cycle. We reviewed the vehicle procurement process to determine if:

- ◆ The process complies with state law regarding fuel efficiency of vehicles.
- ◆ Vehicles are obtained at prices below the manufacturer's suggested retail price (MSRP) and are comparable to prices paid by other states.
- ◆ The process is designed to select the vehicles which meet state needs at the lowest cost.

Vehicle Procurement Practices

Section 2-17-403, MCA, requires state agencies to submit all requisitions for new vehicles to DOA. Purchasing requests contain the class of vehicle required and any necessary options or specifications. DOA aggregates agency vehicle purchasing requests semi-annually (spring and fall) and opens the bidding process to prospective vehicle vendors. The majority of vehicle requisitions are placed during the fall cycle. In the fall 2008 bidding cycle, agencies placed 48 requisitions and 9 vendors submitted sealed bids to provide vehicles.

Compliance With the Fuel Efficiency Law

Section 2-17-416, MCA, which was enacted by the 2007 Legislature, primarily requires a plan that ensures vehicles purchased meet or exceed the Corporate Average Fuel Economy (CAFE) standards. These standards are calculated to express the average fuel economy of an overall vehicle fleet by type of vehicle. The current CAFE standards are 27.5 miles per gallon (mpg) for cars and 23.1 mpg for light trucks, a category that includes SUVs, minivans, and light pickup trucks. This state law also states the director of the DOA may exempt vehicles from the CAFE standard requirement if one or more of the following conditions are met.

The vehicle:

- ◆ Is primarily used for off-road use
- ◆ Is used for road construction and maintenance
- ◆ Is used for maintenance, construction, or groundskeeping
- ◆ Is used primarily for moving and distributing large items or large quantities of items
- ◆ Has a seating capacity of more than six persons
- ◆ Uses alternative fuels

During our audit work, we reviewed DOA bid invitations and verified the master invitation for bid includes a clause stipulating that vehicles must meet the minimum CAFE standards. We also reviewed a sample of 5 of the 48 agency-completed requisition forms, which were randomly selected from DOA records. Two of the five requisitions contained statutorily approved exemptions; the others met the CAFE standard requirement.

CONCLUSION

The contracting process in place provides assurance new vehicles purchased by the state of Montana meet minimum CAFE standard ratings. Compliance with these standards does not assure the most fuel efficient vehicles are selected, only that they exceed the minimum requirements and follow the law.

Vehicle Purchase Prices Appear to Be Competitive With Market Prices

During audit work, we noted that other states commonly obtain vehicles via term contracts while Montana state government employs competitive sealed bidding. According to ARM 2.5.601(1), sealed bids are the preferred procurement method for items exceeding \$5,000. Because the procurement method appeared unique to Montana, we performed audit work to compare the prices paid through DOA contracting to prices available through other means.

To evaluate whether vehicle purchase prices were generally competitive with MSRP, we compared a sample of five bid prices provided by DOA with manufacturers' MSRP. DOA's discounts from MSRP ranged from \$6,400 to \$13,660 per vehicle. We also randomly selected a sample of five bids and compared the bid price to the MSRP and invoice price as determined by Kelley Blue Book, a national provider of vehicle pricing information. In that sample, the discount from MSRP ranged from \$3,541 to \$11,979

and the discount from the invoice price ranged from \$1,330 to \$9,625 per vehicle. We also reviewed a sample of comparable vehicles purchased by the states of Washington and North Dakota and determined prices Montana paid for these selected vehicles were comparable.

CONCLUSION

Vehicles purchased by Montana state agencies are purchased at prices below the invoice price and appeared to be comparably priced to vehicles purchased by two other states.

Improving the New Vehicle Procurement Process

Competing vehicle models may differ based on fuel economy, repair and maintenance costs, resale value, safety, or other important qualities. Fleet management consultants list such factors as important life-cycle cost considerations to minimize vehicle costs over their useful lives. Similarly, the federal General Services Administration (GSA) recommends agencies analyze all life-cycle costs of vehicles as part of the acquisition process. The Guide to Federal Fleet Management states that during procurement, fleet managers should “analyze all relevant costs for each vehicle” and “rank vehicles according to projected life-cycle costs.” In order to minimize costs over a vehicle’s life it is important to consider life-cycle costs in addition to the purchase price. Existing state guidance requires that new vehicle purchases meet certain efficiency minimums but does not provide a method for evaluating vehicles that exceed the minimum.

State Law Allows Life-Cycle Costs as Purchase Criteria

Section 18-4-303, MCA, states, “Those criteria that will affect the bid price and be considered in evaluation for award must be objectively measurable, such as discounts, transportation costs, and total or life-cycle costs.” ARM 2.5.501 states, “Specifications may take into account, to the extent practicable, the costs of ownership and operation as well as initial acquisition costs.”

Vehicle Procurement Process Can Exclude Important Life-Cycle Cost Factors

To purchase a vehicle, agency personnel submit a vehicle requisition to DOA stating the class of vehicle and specifications required. DOA then invites bids from vehicle dealers, reviews the bids and awards a contract to the bidder who offers the lowest purchase price, including delivery to the vehicle’s destination. Only the initial cost is considered when evaluating bids unless the purchasing agency notifies DOA that it would like to consider fuel costs. Thus, inclusion of fuel costs is optional. Other life-

cycle costs related to vehicle operation and resale are excluded from consideration. The following sections illustrate the potential life-cycle savings resulting from considering fuel cost savings based on CAFE ratings.

DOA Does Not Always Consider Estimated Fuel Costs for Vehicle Purchases

While DOA does offer agencies the option of applying a fuel cost calculation to estimate the cost of fuel over the life of the vehicle, agencies must indicate this optional preference on the vehicle requisition form. In cases where the fuel calculation is used, the bid is awarded to the dealer who offers the vehicle that represents the lowest total cost including purchase price and fuel costs. DOA uses 80,000 miles as the expected life of a vehicle and the prevailing price of gas at the time of the bid cycle. During the fall 2008 bidding cycle, the optional fuel calculation was consistently selected by two agencies and was included on the requisitions for the largest numbers of vehicles. But, it was used sporadically or not at all by remaining agencies and there is no assurance that agencies will select the option in the future.

Effect of Excluding Fuel Costs

Because the fuel cost calculation is optional, Montana may purchase vehicles that do not minimize total costs. To examine the potential financial impact of fuel costs, we obtained fuel economy information for four classes of vehicles commonly purchased by the state of Montana. We restricted the sample to evaluate only vehicles that are likely to be considered for purchase by a state fleet. We also limited the samples to vehicles with similar attributes such as engine size and automatic transmission.

From those samples, we identified the models with the highest and lowest fuel economy within a given class in order to illustrate the potential variance in fuel costs over the life of a vehicle. We used an 80,000 mile useful vehicle life, though it should be noted that we observed many agencies were using the vehicles for a greater number of miles. The following table illustrates our findings for the models at the high and low end of each class.

Table 3
Differences in Estimated Fuel Costs by Vehicle Type

Class	Model	Unadjusted MPG	Lifetime fuel cost	Range
Minivan	Worst MPG in Class	23.7736	\$8,682	\$882
	Best MPG in Class	26.4628	\$7,800	
Standard Pickup-2WD	Worst MPG in Class	18.3946	\$11,221	\$1,694
	Best MPG in Class	21.6646	\$9,527	
Standard Pickup-4WD	Worst MPG in Class	17.6812	\$11,673	\$1,895
	Best MPG in Class	21.108	\$9,778	
Mid-size Car (6 cyl.)	Worst MPG in Class	25.6005	\$8,062	\$1,169
	Best MPG in Class	29.9447	\$6,893	

Fuel cost per gallon: \$2.58 MPG = miles per gallon Estimated useful life: 80,000 miles

Source: Compiled by the Legislative Audit Division using data from the American Automobile Association and fueleconomy.gov.

The data indicate that the range in lifetime fuel costs for vehicles within the above classes may vary by approximately \$900-\$1,900. For example, if the state purchases the standard 2-wheel drive pickup truck with the best fuel economy in the class, it would save \$1,694 over the life-cycle of the vehicle compared to the truck with the worst fuel economy if initial purchase price is equal. When extrapolating the cost differences over the entire fleet of vehicles, the potential cost savings are significant.

Life-Cycle Costs as Bid Evaluation Criteria

Vehicle fuel economy estimates are widely available and generally considered to be objective as they are tested in compliance with federal regulations. Some fleet management guidance recommends that additional life-cycle costs such as resale value and maintenance and repairs are also included in vehicle purchase decisions. These types of criteria may be important when making vehicle purchasing decisions but are, by nature, projections based on assumptions. It is possible such estimates may not accurately anticipate future conditions or that the objectivity of data is questionable. But, if it is determined that reliable data exists, the potential cost savings achieved by including additional criteria in the bid process may be significant.

DOA Should Revise its Vehicle Procurement Process to Consider Fuel Costs for All New Vehicle Purchases

Because the application of the fuel cost formula is optional, it is possible that the state may purchase vehicles which do not minimize operating and ownership costs over a vehicle life cycle. Including identifiable and objective costs such as fuel will provide greater assurance the overall cost of state vehicles will be minimized. DOA should

revise its new vehicle procurement process to consider the fuel cost for all vehicles for which fuel efficiency data is available. According to DOA personnel, including fuel costs in all bid evaluations would not impose significant costs upon the agency.

RECOMMENDATION #7

We recommend the Department of Administration revise its vehicle procurement process to apply a fuel cost calculation to each bid evaluation where fuel economy estimates are available.

MULTIPLE AGENCIES

DEPARTMENT RESPONSE

OFFICE OF THE GOVERNOR
STATE OF MONTANA

A-3

BRIAN SCHWEITZER
GOVERNOR



JOHN BOHLINGER
LT. GOVERNOR

August 27, 2009

RECEIVED

AUG 27 2009

LEGISLATIVE AUDIT DIV.

Angie Grove, Deputy Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59601

Dear Ms. Grove:

I have reviewed the final report on the legislative performance audit of State Vehicle Fleet Management in selected state agencies. Your report does a thorough job of explaining some of the complexities and challenges of managing vehicle fleets in state government. In reference to your recommendations, I generally concur. Please see the expanded responses below.

Recommendation #1: We recommend that the agencies in our sample:

A. Implement a fleet management system.

The Governor's Office has been working in cooperation with the Department of Transportation to roll out a fleet management system to state agencies for several months. A project plan and scope have been developed, with final negotiations taking place with the contractor on the implementation strategy and timeframe. The estimated completion date is November 2009.

B. Ensure data collection procedures and controls are in place that comply with existing law and promote effective and efficient fleet management.

State agency use of the fleet management system will provide the necessary data for agencies to ensure this compliance and manage vehicles under each agency's responsibility in an effective and efficient manner.

Recommendation #2: We recommend the Department of Administration establish utilization guidelines that include a minimum mileage-based threshold and other criteria for determining utilization of state vehicles.

The Governor's Office and the Department of Administration will work together to develop vehicle utilization guidelines that address mileage as one of several variables to be considered in determining

proper vehicle utilization. Agency needs and circumstances that contribute to the determination of vehicle assignments will impact which variables are triggered in each utilization review.

Recommendation #3: We recommend agencies in our sample develop assignment criteria and controls for monitoring permanent vehicle assignments.

In cooperation with this audit, the agencies have updated or developed and/or are in the process of developing these criteria.

Recommendation #4: We recommend agencies in our sample:

A. Adopt maintenance intervals consistent with manufacturer recommendations.

Performing vehicle maintenance in accordance with manufacturer recommendations is appropriate and will be adhered to when agencies schedule maintenance to ensure optimum levels of vehicle performance and cost efficiency.

B. Use management information systems to develop controls to ensure maintenance is completed as required.

The new fleet management system will provide the necessary controls to ensure maintenance intervals are followed. It will have sufficient reporting capability to provide maintenance interval information to ensure an effective operation of the state's vehicles.

Recommendation #5: We recommend the Department of Administration develop uniform guidelines for agency use in assessing IRS taxable commuting benefits.

The Department of Administration will develop uniform guidelines for agency use in assessing IRS taxable commuting benefits.

Recommendation #6: We recommend the Department of Administration explore alternative approaches to verify drivers meet requirements.

The Department of Administration will explore alternative approaches to verify drivers meet requirements.

Recommendation #7: We recommend the Department of Administration revise its vehicle procurement process to apply fuel cost calculation to each bid evaluation where fuel economy estimates are available.

The Department of Administration will apply a fuel cost calculation to each vehicle bid evaluation where fuel economy data is available.

The Governor's Office and state agencies strive for efficiency and effectiveness in all aspects of state government including the management and maintenance of the vehicles that state government owns

and operates. The corrective action plan is being compiled and will be delivered shortly. I truly appreciate the thoroughness and professionalism of your staff as they conducted their audit work.

Sincerely,

A handwritten signature in black ink, reading "Vivian V. Hammill". The signature is written in a cursive style with a large, prominent initial "V".

Vivian V. Hammill,
Chief of Staff,
Governor's Office

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SEP 03 2009

LEGISLATIVE AUDIT DIV.

**Corrective Action Plan (CAP): Audit Report #09P-04
State Vehicle Fleet Management Audit
Multiple Agencies
September 2, 2009**

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
52010 FWP	Recommendation #1 We recommend that the agencies in our sample:					Donna Aldrich FWP	
64010 DOC	A. Implement a fleet management system.	No		Concur	A. The Governor's Office has been working in cooperation with the Department of Transportation to roll out a fleet management system to state agencies for several months. A project plan and scope have been developed, with final negotiations taking place with the contractor on the implementation strategy and timeframe.	Rhonda Schaffer COR	11/2009
66020 DLI						Tammy Lavigne DLI	
69010 DPHHS						Marie Matthews DPHHS	
54010 MDT							
53010 DEQ	B. Ensure data collection procedures and controls are in place that comply with existing law and promote effective and efficient fleet management.	No		Concur	B. State agency use of the fleet management system will provide the necessary data for agencies to ensure this compliance and manage vehicles under each agency's responsibility in an effective and efficient manner.	Jody Brandt MDT Terry Lazure DEQ	Within 30-60 days of the contractor completing their work.
61010 DOA	Recommendation #2 We recommend the Department of Administration establish utilization guidelines that include a minimum mileage-based threshold and other criteria for determining utilization of state vehicles.	No		Concur in concept	The Governor's Office and the Department of Administration will work together to develop vehicle utilization guidelines that address mileage as one of several variables to be considered in determining proper vehicle utilization. Agency needs and circumstances that contribute to the determination of vehicle assignments	Sheryl Olson DOA	As soon as feasible, but no later than 12/31/2009.
31010 GOV	Recommendation #2 continued					David Ewer GOV	

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
					will impact which variables are triggered in each utilization review.		
52010 FWP 64010 DOC 66020 DLI 69010 DPHHS 54010 MDT 53010 DEQ	Recommendation #3 We recommend agencies in our sample develop assignment criteria and controls for monitoring permanent vehicle assignments.	No		Concur	In cooperation with this audit, the agencies have updated or developed and/or are in the process of developing these criteria.	Donna Aldrich FWP Rhonda Schaffer COR Tammy Lavigne DLI Marie Matthews DPHHS Jody Brandt MDT MDT Terry Lazure DEQ	As soon as feasible, but no later than 12/31/2009.
52010 FWP 64010 DOC 66020 DLI 69010 DPHHS 54010	Recommendation #4 We recommend agencies in our sample: A. Adopt maintenance intervals consistent with manufacturer recommendations. Recommendation #4 Continued	No		Concur	A. Performing vehicle maintenance in accordance with manufacturer recommendations is appropriate and will be adhered to when agencies schedule maintenance to ensure optimum levels of vehicle performance and cost efficiency.	Donna Aldrich FWP Rhonda Schaffer COR Tammy Lavigne DLI Marie	Within 30-90 days of the contractor completing their work.

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
MDT 53010 DEQ	B. Use management information systems to develop controls to ensure maintenance is completed as required.	No		Concur	B. The new fleet management system will provide the necessary controls to ensure maintenance intervals are followed. It will have sufficient reporting capability to provide maintenance interval information to ensure an effective operation of the state's vehicles.	Matthews DPHHS Jody Brandt MDT Terry Lazure DEQ	Within 30-90 days of the contractor completing their work.
61010 DOA	Recommendation #5 We recommend the Department of Administration develop a uniform statewide interpretation of IRS taxable commuting benefit guidance.	No		Concur	The Department of Administration will develop uniform statewide guidelines for assessing IRS taxable commuting benefits.	Paul Christofferson DOA	3/2010
61010 DOA	Recommendation #6 We recommend the Department of Administration assure effective driver requirement controls.	No		Concur	The Department of Administration will explore alternative approaches to verify drivers meet requirements.	Brett Dahl DOA	11/2009
61010 DOA	Recommendation #7 We recommend the Department of Administration revise its vehicle procurement process to apply a fuel cost calculation to each bid evaluation where fuel economy estimates are available.	No		Concur	The Department will apply a fuel cost calculation to each vehicle bid evaluation where fuel economy data is available.	Marvin Eicholtz DOA	12/2009