

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors:
James Gillett
Angie Grove

MEMORANDUM

TO: Legislative Audit Committee Members

FROM: Lisa Blanford, Performance Audit Manager

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

DATE: December 2010

RE: Performance Audit Follow-up (11SP-07): State Vehicle Fleet Management (09P-04)

ATTACHMENT: Original Performance Audit Summary

INTRODUCTION

In September 2009, we presented our performance audit on State Vehicle Fleet Management. The audit made seven recommendations. Four were directed to the Department of Administration and three were directed to six agencies which operate vehicle fleets. These agencies were:

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

In October 2010, we began gathering preliminary information from the agencies on their progress in implementing the recommendations. This memo summarizes the results of our follow-up work.

Overview

Audit recommendations addressed a variety of improvements in state vehicle fleet management. Recommendations addressed the need for better information regarding the state's fleet of vehicles and for improved policies and business practices related to fleet operations. The state purchased a fleet management information system and it is available for use by agencies. The agencies have started to enter data into the information system and are beginning to use information to make management decisions related to the vehicle fleet. Based on our follow-up work, we determined each of the recommendations contained in the original audit has been or is being implemented or is partially implemented. Resulting fleet reductions will generate expected annual savings of at least \$470,000.

BACKGROUND

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. Our audit assessed the effectiveness of management practices over the 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. Four recommendations were to the Department of Administration and addressed:

- Establishing utilization guidelines for use by agencies to assess the necessity of individual fleet vehicles.
- Developing uniform statewide guidelines for agency use in assessing taxable commuting benefits as required by the Internal Revenue Service.
- Considering alternatives to enhance the effectiveness of drivers' records checks for drivers of state vehicles.
- Applying a fuel cost calculation during the procurement of all new vehicles for which reliable estimates are available.

The three recommendations addressed to vehicle-operating agencies within our sample included:

- Implementing a fleet management information system and using the information to promote effective fleet management.
- Developing assignment criteria for vehicles permanently assigned to individual drivers.
- Adopting maintenance intervals consistent with manufacturer guidelines and using the information system to monitor for required maintenance.

FOLLOW-UP AUDIT FINDINGS

In response to the original audit report the agencies involved indicated concurrence with all the recommendations. As part of audit follow-up work, we requested an implementation status update from each agency, reviewed agency documents relating to the audit recommendations and interviewed agency staff. The implementation status of each recommendation is discussed in the following sections.

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.**

Implementation Status – Part A. Implemented, Part B. Implemented or Being Implemented

Each of the six agencies included in our original audit now have access to a statewide fleet management information system. Licenses to access the system are available for purchase to agencies. Agencies may opt to purchase a single license or multiple licenses, enabling multiple employees to access the system from several locations across the state. Based on evidence gathered, the estimated annual cost per license ranges from \$1,200 to \$1,900.

Agencies have begun to enter data related to fleet operations into the system with varying degrees of progress. One agency (the Department of Corrections) has been able to use the information about its vehicle fleet to make significant changes to its business practices, which will result in substantial savings. These changes include a reduction in overall fleet size due to increased sharing of vehicles among department employees and reduced use of state vehicles for commuting purposes. Department management estimates these changes will save over \$450,000 annually. Other departments reported fleet reductions as well, including the Department of Labor and Industry, which estimates a savings of over \$20,000 per year.

Agency staff generally indicated reporting functions of the new fleet management information system will enhance the ability to track vehicle operating histories, which is a statutory requirement. Some agencies reported though that system reports are difficult to customize and hoped additional reporting functions may be added in the future.

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.

Implementation Status – Implemented

The Department of Administration developed utilization guidelines which require vehicles to be used a minimum of 10,000 miles annually in order to be kept in the vehicle fleet unless the vehicle is exempt from the minimum mileage threshold because it meets other use criteria. The guidelines indicate underutilized vehicles that are not exempt should be removed from the fleet and sold.

Recommendation #3

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

Implementation Status – Implemented or Being Implemented

At the time of our audit, two of the six sampled agencies had mileage-based permanent vehicle assignment criteria in place while the remaining four lacked specific criteria. The agencies which

required employees to meet certain conditions in order to be assigned a vehicle continue to use these criteria. The agencies which did not have assignment criteria in place are still working on developing them. For example, the Department of Environmental Quality has surveyed its divisions regarding vehicle assignment but has not yet developed specific assignment criteria. Department staff indicated the agency's preference is to develop such criteria is by working with the department's internal auditor, a position which is currently vacant.

The Department of Labor and Industry indicated it initially sought to develop criteria similar to those used at FWP, but identified there are only a few specific positions (such as field inspectors) within the agency that require permanent vehicle assignment. So instead of a checklist of conditions for vehicle assignment, staff members there are working on developing assignment criteria based upon departmental positions.

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.**

Implementation Status – Part A. Implemented or Partially Implemented, Part B. Implemented or Being Implemented

Five of the six agencies reported that they adopted maintenance intervals consistent with manufacturer recommendations; however, the Department of Public Health and Human Services indicated obtaining specific intervals for individual vehicles is cumbersome. As a result DPHHS adopted a standard 5,000 mile interval for the entire fleet.

Each of the agencies now using the statewide fleet management information system reported the system does provide useful reminders regarding required maintenance. Agencies which have only recently input vehicle data into the system have not yet had time to fully utilize the maintenance notification function.

Recommendation #5

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

Implementation Status – Implemented

The Department of Administration developed taxable benefit guidelines for use by all state agencies. The guidelines explain that depending on the situation, the State will use one of three valuation methodologies to calculate the amount of income to report as taxable wages and provides instruction related how to calculate the amount of the taxable benefit, when appropriate.

Recommendation #6

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

Implementation Status – Implemented

The Department of Administration developed an online presentation which is available to agencies in order to help them take a more active stance in ensuring drivers meet state requirements in order to operate a state vehicle. The presentation explains how to access drivers' records maintained by the Department of Justice and how to interpret and use results to help ensure drivers of state vehicles meet established requirements. This provides agencies with a proactive method to verify employees meet requirements.

One agency, the Department of Labor and Industry, has also developed a survey for employees related to driver requirements. The survey is designed to help the agency identify drivers who may not comply with state requirements.

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.

Implementation Status – Implemented

Beginning with the vehicle procurement cycle of fall 2009, the Department of Administration reported it revised procurement procedures to include a fuel cost calculation when available. We examined records for the spring 2010 vehicle procurement cycle and determined that of the 12 groups of vehicles purchased by state agencies, eight included the calculation of expected fuel cost during the bid evaluation.

Of the four bids which did not include a fuel cost calculation, three were for vehicles which do not have Corporate Average Fuel Economy (CAFE) ratings published by the Environmental Protection Agency, which is the source for estimates used. The other vehicle group which did not include a fuel cost calculation received only one responsive bid, making the application of the fuel cost calculation irrelevant for evaluation purposes.

The inclusion of fuel costs is important because there is potentially a wide range in costs over a vehicle's useful lifetime. For example, during the most recent procurement, the difference in expected lifetime fuel costs between vehicles bid in a single group was as much as \$1,963. In one of the eight cases in which fuel cost estimates were applied, the bid was awarded to a vendor who did not have the lowest initial cost but did have the lowest expected lifetime cost once fuel was considered.

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