REPORT TO THE

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A Performance Audit
of the
Division of Fleet Operations

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As the state's fleet manager, DFO is charged with managing fleet costs. DFO has primarily controlled fleet costs through implementing cost reduction techniques and decreasing the total number of state-maintained vehicles over the last five years. While overall costs have decreased, improvements are still possible in some areas.

Chapter II: DFO's Information System Can Be Better Utilized

Vehicle Information Should Be Monitored More Consistently. Two key elements that are essential for cost-effective fleet management are accurate and timely fleet information, and regular monitoring. While DFO's vehicle information system provides adequate vehicle monitoring data, DFO's assignment of responsibility for entering and maintaining accurate data to agencies has not worked well. It appears that about half of the state agencies and institutions do not consistently use or monitor vehicle information. DFO needs to use its oversight authority more assertively when working with agencies to better monitor state fleet information.

Use of Exception Reports Can Improve. Exception reports are a key control that help identify areas within the state fleet that need to be improved. Exception report monitoring alerts DFO and state agencies of data errors, poor vehicle management, and the inappropriate use of state vehicles. However, it appears that exception reports can be reviewed more closely by state agencies, as surveyed agencies were not aware of over 50 percent of their vehicles that were listed as problematic in exception reports. DFO can better assist agencies in monitoring fleet information by providing consistent exception report notifications, requiring state agencies to review critical vehicle data regularly and report data errors and other vehicle information problems to DFO, and periodically reviewing all exception reports for accuracy.

Take-Home Vehicles Need to Be Tracked and Monitored More Effectively. DFO needs to accurately track take-home vehicle information and monitor the take-home program to ensure that state agencies are complying with state and federal requirements. Some current take-home vehicle assignments appear to be unnecessary for performing job duties as outlined by state policy. The take-home vehicle program is designed to assist state employees in performing their job functions in a manner benefitting the state.

1. We recommend that DFO provide exception reports to state agencies on a monthly basis.

2. We recommend that DFO request state agencies to review exception reports and inform DFO of incorrect vehicle information.

3. We recommend that DFO periodically monitor a sample of vehicle information data to determine if vehicle information is accurate and vehicles are being used appropriately.

4. We recommend that DFO annually monitor take-home vehicles and encourage state agencies to:
   - comply with state and federal requirements, and
   - determine if take-home vehicle assignments are appropriate.

Chapter III: Better Control Over Vehicle Utilization Would Be Beneficial

Utah's Fleet Utilization Program Can Be Enhanced. The state's low-mileage vehicles we reviewed, while not achieving optimum utilization, appear to still be necessary because they are either used frequently or are special purpose vehicles that are necessary for specific tasks. Though elimination, in most cases, does not appear to be possible, vehicle rotation would allow more efficient use of the fleet. Rotating vehicles would help DFO sell more vehicles at the optimal time in miles and years.

Management of Utilization Has Improved. DFO has significantly improved state vehicle utilization management and corrected some deficiencies by developing a plan to monitor utilization more effectively. Previously, DFO left much of this monitoring to individual agencies. The division has also created clear minimum utilization standards and has outlined a course of action when vehicles don't meet those standards.

1. We recommend that DFO continue to take ultimate responsibility for vehicle utilization by continuing to monitor the fleet's utilization.

2. We recommend that DFO study the issue of vehicle rotation and, where it is shown to be both feasible and cost-effective, implement a rotation program.

3. We recommend that DFO develop a procedure to find out why vehicles have low miles and require feedback from the agencies to ensure that, if needed, an appropriate change in vehicle use takes place.

Chapter IV: Daily Pool Efficiency Can Be Improved

Size of Daily Pool Can Be Reduced In Both Vehicles and Locations. DFO's daily pool dispatch locations have at least 40 vehicles that are used principally (90 percent of reservations) by one user agency. These vehicles, if poorly utilized, should be eliminated, while those with high utilization could be transferred from the daily pool to the host agency as monthly rentals. In addition, DFO should consider further consolidation of pool sites to reduce costs and increase utilization.

Further Changes Needed for Daily Pool to Recover Costs. In order to reduce the daily pool deficit, DFO needs to cut costs by reducing vehicles, thus increasing utilization of the remaining vehicles. Data from the first two months of fiscal year 2006 show that costs are still not being recovered even after the new rental rate increases. Although these changes should eliminate \$300,000 of the existing \$490,000 deficit, a \$190,000 deficit will remain if nothing more is done. The daily pool's fiscal year 2006 goals of cost recovery and increased fleet utilization do not appear to be possible without reducing vehicles. Each of these goals affects the other, and the key for DFO is to find the proper balance of utilization and cost recovery.

1. We recommend that DFO, in the case of well-utilized daily pool vehicles used principally by one agency, assign the vehicles to that agency on a monthly lease basis.

2. We recommend that DFO continue to restructure its daily pool by considering the elimination or consolidation of sites that principally serve the host agency. Utilization, proximity to other sites, and operating cost should be part of this consideration.

3. We recommend that DFO annually assess its lease rate/cost recovery program to determine changes necessary to fully recover costs.

Chapter 1
Introduction

The Department of Administrative Services oversees the administration of the state's motor vehicle fleet through its Division of Fleet Operations (DFO). DFO's administrative duties include purchase of state vehicles, fleet safety and loss prevention, vehicle reassignment and reallocation, and management of the state's daily motor pool (vehicles leased on a daily basis to state agencies). In addition, DFO oversees vehicle maintenance operations, fuel management and dispensing services, and state surplus operations.

As the state's fleet manager, DFO is charged with managing fleet costs. DFO has primarily controlled fleet costs through implementing cost reduction techniques and decreasing the total number of state-maintained vehicles over the last five years. While overall costs have decreased, improvements are still possible in some areas.

State Fleet Size Has Decreased in Recent Years

The overall size of the fleet has decreased in the last five years by 105 vehicles.

The overall size of the fleet has decreased in the last five years from 7,401 vehicles in 2000 to 7,296 in 2004. This decrease is partially due to a 1999 legislative mandate to reduce the state fleet. Figure 1, below, shows the decrease in fleet size and changes in fleet composition since 2000.

The fleet has decreased its numbers of sedans, SUVs, vans, and construction vehicles.

Figure 1. Composition of State Fleet. Overall, the state fleet has decreased in size since 2000, but some vehicle types have increased, such as trucks and speciality vehicles.

Vehicles	2000	2001	2002	2003	2004
Sedan	1,785	1,760	1,737	1,668	1,645
Patrol/Motorcycle	565	560	592	606	597
Truck	2,998	2,992	3,085	3,102	3,144
SUV	449	452	451	411	418
Van	1,059	1,038	1,054	989	985
Construction	457	439	426	422	396
Speciality	88	94	102	103	111
Total	**7,401**	**7,335**	**7,447**	**7,301**	**7,296**

The composition of the fleet has changed to meet agencies' needs. In spite of an overall decline of 105 state vehicles, the fleet has increased its trucks by 146, and specialty vehicles, such as buses, have increased by 23. All other vehicle types have been decreasing. Sedans have decreased by 140, SUVs have decreased by 31, vans have decreased by 74, and construction vehicles have decreased by 61.

Consolidating the Fleet Has Created a Shift to Capital Lease Vehicles

A fleet study completed in the late 90s showed that the state could save money and provide consistent data reporting by consolidating the state fleet. In 1997, the Legislature began consolidating the state fleet. Consolidating the fleet combined about 27 individual agency motor pools into one fleet. As a result, administrative costs per vehicle, per month have decreased from $56.92 in 1999 to $48.57 as of this report. Consolidating occurs when agency-owned vehicles are due to be replaced. Consolidating requires state agencies to arrange a full service lease or a capital lease when an agency leases a new state vehicle from DFO to replace an old vehicle that the agency owned. Both lease types are defined below:

1. **Full Service Lease Vehicle—**An agency pays DFO a lease rate covering both fixed costs (depreciation, administrative overhead) and variable costs (repairs, preventative maintenance, and fuel).

2. **Capital Lease Vehicle—**An agency pays DFO a lease rate that only covers the fixed costs.

Consolidating the fleet has created a shift from agency-owned vehicles to capital lease vehicles.

Perhaps the greatest change from this consolidation of vehicles has been a shift from agency-owned vehicles to capital lease vehicles. Figure 2 shows the increase in capital lease vehicles since fiscal year 2000.

Figure 2. State Vehicles by Lease Type. Higher education owns their vehicles, but state agencies should lease their vehicles from DFO.

Vehicles	2000	2001	2002	2003	2004
Capital Lease	596	1,176	1,240	1,312	1,418
Full Service Lease	3,509	2,999	3,025	2,927	2,905
Owned	3,296	3,107	2,880	3,057	2,947
Total Vehicles	**7,401**	**7,282**	**7,145**	**7,296**	**7,270**

Note: Vehicle totals are low due to the procurement cycle.

The number of capital lease vehicles has increased by 822 since 2000.

The number of capital lease vehicles has increased by 822 vehicles. While this is partially due to consolidation, the number of owned vehicles has decreased by 349. But it appears there has also been a shift from full lease vehicles, which have decreased by 604, to capital lease vehicles. Some agencies believe they can perform vehicle repairs and maintenance less expensively, so they choose capital leases rather than full service leases if they meet DFO defined criteria.

A small variance in the total number of vehicles by year exists between the data in Figure II, showing the types of leases, and Figure I, above, showing fleet composition. This variance is due to the procurement cycle; because of state agencies disposing or replacing vehicles, the fleet size changes during the creation of vehicle reports.

Some Vehicle Costs Are Being Well Managed

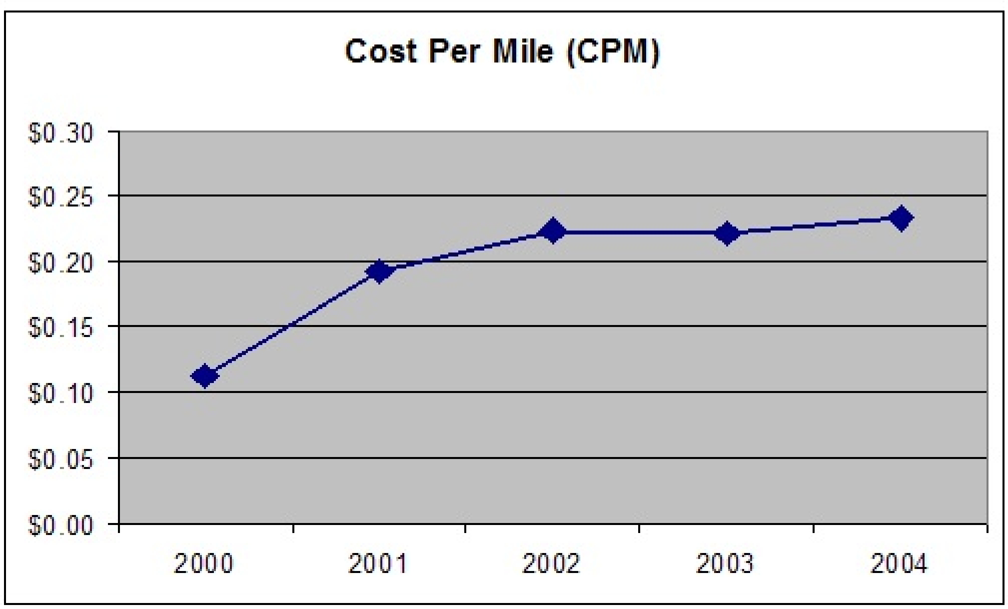
Overall, the state fleet's per mile costs increased in fiscal year 2004. This is due to an increase in fuel prices and better data collection brought by consolidation of the state fleet. However, DFO has been taking steps to manage the state fleet efficiently. DFO has centralized maintenance management, which has saved about $1 million, created a rate matrix to help insure vehicles are utilized efficiently, and has closely monitored its administrative overhead.

Cost-per-Mile Trend Increased Slightly in 2004

Vehicle cost-per-mile, a common benchmark for DFO, increased 5% in 2004.

Looking back since 2000, overall costs related to the state fleet increased significantly until 2002 and then flattened. Cost per mile (CPM) is a common benchmark among state fleets to monitor the fleet for efficiency. Figure 3 shows the average CPM for the state fleet since 2000. The CPM for each year in the figure has been adjusted for annual inflation.

Figure 3. Cost per Mile for the State Fleet, Adjusted for Inflation. The 5-percent increase in the cost per mile for 2004 is partially due to the increase in fuel prices.



Part of the increase in 2004 relates to the centralization of vehicles and DFO's continued effort to capture all fleet costs. DFO has been working with state agencies to capture all vehicle related expenses paid out of non-fleet accounts. Also, part of this increase is due to increase in costs associated with vehicle acquisition (depreciation), vehicle repair services, and fuel expenses.

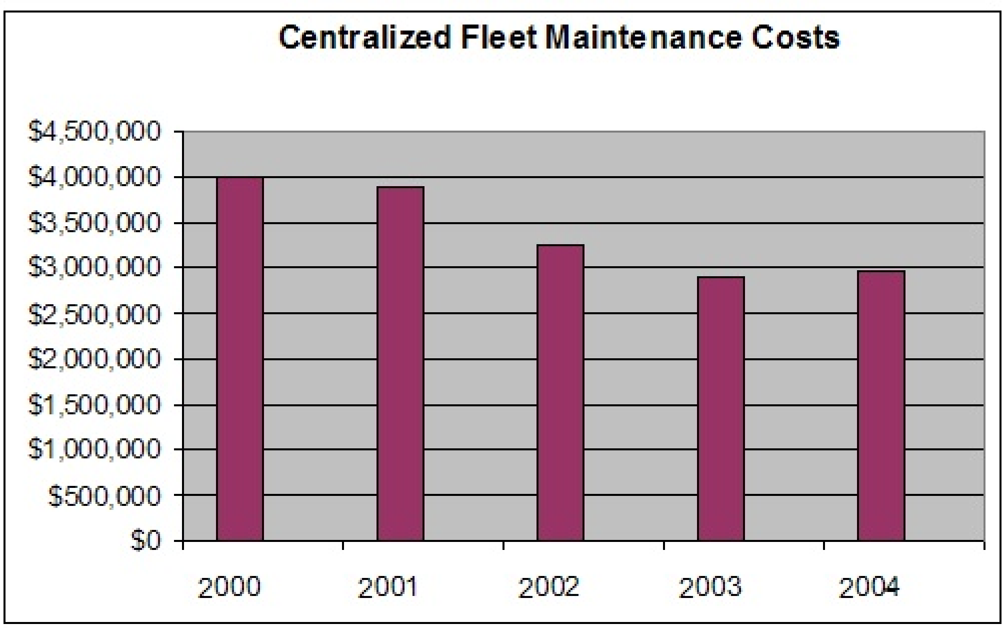
Other Programs Are Helping to Reduce Costs

DFO has taken steps to efficiently manage the state fleet and help keep costs down. DFO has centralized vehicle maintenance, created a rate matrix to help ensure that vehicles are utilized efficiently, and has monitored administrative overhead costs.

DFO partnered with Automotive Resources International (ARI) to create a centralized management system which has helped improve data integrity and saved $1 million.

Centralized Vehicle Maintenance Helps Keep Vehicle Costs Down. One area that significantly contributes to keeping costs down is vehicle maintenance. In fiscal year 2001, DFO partnered with Automotive Resources International (ARI) to create centralized maintenance management. This partnership has not only helped to improve data integrity, but has also saved money each year relative to maintaining state vehicles. Figure 4 shows the overall downward trend in maintenance costs since DFO has partnered with ARI.

Figure 4. State Fleet Maintenance Costs. Since DFO partnered with ARI, fleet maintenance costs have decreased until 2004.



While fleet maintenance and repair costs increased slightly in fiscal year 2004, overall fleet maintenance costs decreased by 35 percent since 2000.

Since DFO has partnered with ARI, the state has recovered about $80,000 in post-warranty repairs.

Additionally, this partnership with ARI has produced savings in the area of "post-warranty" recovery. These savings are monies collected from state vehicles needing repairs after the vehicles are out of the warranty period. ARI has the ability within the fleet industry to negotiate with large manufacturers and collect post-warranty repairs on the state's behalf. Since DFO partnered with ARI in 2001, ARI has recovered about $80,000 for the state fleet.

DFO Has Developed the Rate Matrix to Cover the Depreciation Expense of State Vehicles. The rate matrix was implemented beginning in 2004. It consists of a table ranging from a two-year to a twelve-year vehicle life. The rate matrix allows the division and state agencies to categorize state vehicles in the table based on utilization to adequately cover the depreciation expense for each vehicle. The program requires two annual adjustments each year, so each state vehicle is realigned into its proper life cycle in relation with the state's 90,000-mile replacement policy.

DFO is successfully keeping its administrative overhead below 2 percent of the total division's budget.

DFO Has Low Administrative Overhead. A benchmark that DFO follows very closely is the percent of administrative overhead relative to its total budget dollars. DFO is successfully keeping its administrative overhead below 2 percent of the division's total budget.

While DFO has taken steps to efficiently and effectively manage the state fleet, this audit report, Chapters II through IV, suggests areas where DFO can make more improvements. Vehicle information can be monitored more consistently, some state vehicles can be better utilized, and the daily motor pools can be managed more efficiently.

Audit Scope and Objectives

In October 2004, the chairs of the Governmental Operations Interim Committee requested an audit of overall state agency use of motor vehicles. One of the committee's concerns was the possible personal use of state motor pool vehicles—given it had been 15 years since the last legislative review. The audit objectives included reviewing the following areas:

1. State agency fleet management efforts
2. Vehicle utilization
3. The efficiency and effectiveness of the daily motor pool

The above objectives were selected and approved to gain an overall understanding of the organization's general controls and direction. Reviewing overall controls was selected because it was deemed that specifically looking at individual trips to determine actual misuse of state vehicles for personal use would not be effective.

During the course of this audit, we analyzed DFO and user agency databases, interviewed fleet coordinators from various agencies, surveyed fleet managers from eight western states, and reviewed applicable ***Administrative Rule*** and ***Utah Code*** sections. We also examined literature and interviewed individuals from professional fleet organizations and the federal government.

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Chapter II
DFO's Information System Can Be Better Utilized

The Division of Fleet Operations (DFO) gives state agencies some fleet management authority and responsibility. This sharing of authority has decreased DFO's ability to tightly manage the state fleet and has created some confusion among state agencies over fleet management responsibilities.

Both DFO and agencies can better utilize the vehicle management information system.

Both DFO and agencies can better adhere to existing state laws and policies and utilize existing vehicle management and monitoring systems. Vehicle management information is critical to the operation of a cost-effective fleet. DFO needs to monitor vehicle information more consistently, improve the use of exception reports, and monitor take-home vehicles more closely to help ensure that they are being assigned appropriately. Taking these steps will improve the accuracy of fleet information and will help assure that state vehicles are used appropriately.

DFO needs to more assertively require agency accountability to effectively manage the state fleet.

The ***Utah Code*** provides DFO with adequate authority to provide the controls and accountability to effectively manage the state fleet. ***Utah Code*** 63A-9-401(1) states that the division shall perform all administrative duties and functions related to management of state vehicles. DFO has focused on both providing customer service and giving state agencies the tools to manage state vehicles that agencies lease or own. However, DFO needs to more assertively require agency accountability while providing customer service to effectively manage the state fleet.

Vehicle Information Should Be Monitored More Consistently

Two key elements that are essential for cost-effective fleet management are accurate and timely fleet information, and regular monitoring. DFO's vehicle information system provides adequate vehicle data to monitor the state fleet. DFO has given state agencies the responsibility for entering and maintaining accurate data about each motor vehicle that they own, operate, or otherwise control into the fleet information system. However, it appears that about half of the state agencies and institutions do not consistently use or monitor vehicle information.

DFO needs to use its oversight authority more assertively when working with agencies to better monitor state fleet information. This will result in more accurate fleet information and will enhance the decision-making process for fleet operations.

DFO's Fleet Information System Provides Valuable Data

A standard management practice is to have information management systems in place to help make sound decisions and assess performance. ***Administrative Rule*** R27-5-2(5) states:

> The division shall provide each agency with program access, software updates, licensing fee requirements, system reports, LAN coordination, user manuals, help-desk access, and user training necessary to maintain and operate the divisions' state fleet information system to track state vehicles.

DFO's information system provides a variety of reports to effectively manage the state fleet.

DFO has an information system, FleetFocus, which tracks state vehicles. FleetFocus provides DFO and state agencies with a variety of reports to effectively manage the fleet. These reports are valuable tools for analyzing the state fleet. FleetFocus reports provide pertinent information such as: vehicle utilization, cost per mile, fuel billing history, preventative maintenance, recalls, and miles per gallon. The information system can also provide reliable information for monitoring appropriate use of state vehicles.

DFO provides state agencies with training in different formats.

In addition to providing the information system, DFO offers users of FleetFocus several training programs as well as software updates. DFO provides seminars, classroom training, customized training tailored specifically for an agency's needs, one-on-one sessions, and on-line training to state agencies.

Not All State Agencies Consistently Use Available Fleet Information

About half of all state agencies do not consistently review key fleet management information. This information helps state agencies determine if vehicles are being managed cost-effectively, and it should be reviewed to determine if vehicle information is accurate on FleetFocus. DFO has deferred the responsibility to maintain accurate vehicle information to state agencies. We surveyed 13 state agencies to determine how extensively agencies use fleet information available on FleetFocus. Although the 13 agencies surveyed own or lease 80 percent of the entire state fleet, they reported poor utilization of the state fleet reports.

Half of the agencies surveyed review fleet reports monthly.

Fleet Reports Are Not Reviewed Monthly by All State Agencies. We contacted agency fleet coordinators for the 13 agencies surveyed to ascertain which key fleet information they use and how frequently they use this information to help manage their vehicles. Overall, half of the agencies surveyed review fleet reports monthly, 21 percent review the reports quarterly or less frequently, and 29 percent don't review the reports. Key fleet management information includes the following reports:

- **Utilization**—number of miles vehicles are driven each month
- **Miles per gallon (MPG)**—the miles driven, the gallons of gas used, the miles per gallon, and a range of miles per gallon the vehicles should be getting
- **Fuel billing**—the dates the vehicles were fueled, the amount of fuel, the cost of the fuel, and the odometer reading at the time of the fueling
- **Recalls**— whether vehicles have had manufacturer recalls completed
- **Preventative maintenance**—when vehicles have had preventative maintenance completed

Figure 5 summarizes the responses of the 13 agencies and shows that half of all the agencies review most of the reports on a monthly basis. While not shown in the figure, only three agencies review all five reports on a monthly basis.

Figure 5. State Agencies' Use of Key Fleet Reports. Almost half of the reports are reviewed on a monthly basis.

	Percent of Agencies Reviewing Reports		
Type of Report	**Monthly**	**Quarterly or Less**	**Not Reviewed**
Utilization	50%	25%	25%
MPG	44	12	44
Fuel Billing	56	19	25
Recalls	50	25	25
Preventative Maintenance	50	25	25
Average	**50%**	**21%**	**29%**

Some agencies reported that they lack the staff and time to thoroughly review the reports.

All of the agencies surveyed are aware of the fleet reports, but they do not review the reports consistently. Fleet coordinators frequently gave two reasons why reports are not reviewed consistently. One of the reasons is that some state agencies lack the staff and time to thoroughly review the reports. For example, one agency's fleet coordinator stated that only one FTE is dedicated to fleet management. That fleet coordinator believed that monitoring the reports consistently and investigating problems or trends would require one full-time position. Since the fleet coordinator is the only person dedicated to fleet management, the fleet coordinator can only spend part of the time monitoring the reports.

Some agency fleet coordinators are not aware of their responsibility to monitor the fleet reports.

The second reason is that some confusion exists over whose responsibility it is to review the reports. Some fleet coordinators don't review some of the reports because they understand that it is DFO's responsibility to monitor those reports. For example, one fleet coordinator reviews four of the five vehicle reports every month, but never looks at the miles per gallon (MPG) report because the fleet coordinator believes the MPG report is for DFO's use. DFO needs to continue to help fleet coordinators understand their responsibilities.

The survey showed that periodic turnover is a third reason why reports are not monitored consistently. New fleet coordinators need time to learn their responsibilities and execute them. Of the 13 agencies surveyed, four of the fleet coordinators started after January 2005. Fleet coordinators explained that it takes time to learn their responsibilities, the use and location of the vehicles, and FleetFocus (DFO's information system), to be able to properly manage their fleet. One new fleet coordinator wants to monitor the reports on a regular basis, but the coordinator is still learning FleetFocus and is just starting to monitor the reports.

Fleet reports are a primary means of oversight and control.

Fleet Reports and Internal Audits Help Alert Agencies of Inappropriate Vehicle Use. Fleet reports are a primary means of oversight and control, but in order for fleet reports to help monitor vehicle use, agencies need to use the reports and ensure data accuracy. One agency recently learned that an employee was using a state vehicle for personal use, and is currently conducting an investigation. The investigation began due to a complaint letter that the agency received from a state employee. Some fleet coordinators have stated that the general public is a good control mechanism, but agencies need to do more than just rely on state employees and the general public.

DFO and state agencies need to review fleet reports, look for "red flags," and conduct audits of the state fleet to monitor the appropriate use of vehicles. The survey of state agencies showed:

- Twenty-five percent of the agencies conduct regular audits of their fleet and test for inappropriate use.
- Forty-four percent of the agencies "spot check" fleet reports.
- Thirty-one percent of the agencies have never reviewed vehicles specifically testing for inappropriate use.

Use of Exception Reports Can Improve

Exception reports are not closely reviewed by all agencies.

Exception reports are a key control that help identify areas within the state fleet that need to be improved. DFO has created several exception reports to help monitor the fleet. Exception reports alert DFO and state agencies of data errors, poor vehicle management, and the inappropriate use of state vehicles. However, it appears that exception reports can be reviewed more closely by state agencies. We surveyed six agencies that had vehicles listed on two exception reports. Those six agencies were not aware of over 50 percent of their vehicles listed on those two reports.

DFO can better assist agencies in monitoring fleet information by providing consistent exception report notifications. DFO should also require state agencies to review critical vehicle data regularly and report data errors and other vehicle information problems to DFO. Also, DFO should not solely rely on state agencies to report data errors; they should periodically review all exception reports for accuracy.

Exception Reports Are a Key Control For Monitoring the State Fleet

DFO's information system provides several exception reports that help alert agencies and DFO of potential control problems. DFO can notify agencies if any of the vehicles they own or lease meet the criteria for key exception reports. These reports are a very useful control because they can show:

Exception reports help identify areas in the state fleet that need to be improved.

- **Data errors**—Incorrect mileage has been entered into the data system.
- **Vehicle maintenance or repair problems**—Vehicles may not be functioning properly.
- **Procedure errors**—Two vehicles have been fueled using one state gas card, and as a result, one vehicle isn't showing any miles driven.
- **Low utilization**—Vehicles have driven very few miles, and as a result, the vehicle has not been refueled during the month to show miles driven.
- **Inappropriate use**—A vehicle may show low miles per gallon, because a user is fueling a private vehicle using a state gas card.

Agencies need to review exception reports monthly.

Exception reports can be a valuable internal control to manage the fleet more cost-effectively, but the reports need to be reviewed monthly, and corrective action should be taken in a timely manner.

Exception Reports Are Not Reviewed Thoroughly by State Agencies

The audit found that not all agencies surveyed are aware of vehicles that they lease or own that are listed on exception reports.

We tested two exception reports, the miles per gallon (MPG) and zero miles reports, to determine if vehicle information is accurate and if fleet coordinators were aware of the reasons why vehicles met the criteria for an exception report. We found that some agencies are not aware of all vehicles they lease or own that are listed on the MPG and zero miles exception reports. We also found that the exception reports information is not always accurate.

We reviewed a sample of six state agencies that own or use vehicles meeting the criteria for the April 2005 miles per gallon and zero miles exception reports. The criteria for the two exception reports are:

- **Miles per gallon (MPG) exception report**—Vehicles are listed that are out of the normal range (both high and low)by vehicle class, for miles driven per gallon of fuel used.
- **Zero miles exception report**—Vehicles are listed that are not driven for over two month.

Figure 6, below, shows the results from the review. It appears that some fleet coordinators "skim" the exception reports. Fleet coordinators need to review the exception reports more thoroughly to ensure data accuracy and appropriate and cost-effective vehicle use.

Figure 6. Summary of Exception Report Review. Exception reports are not closely reviewed by the selected six state agencies.

Questions to Six Agencies about Vehicles Listed on Exception Reports	Percent of Vehicles: MPG Yes	MPG No	Zero Miles Yes	Zero Miles No
Is the agency aware that the vehicles were listed on the exception report?	28%	72%	47%	53%
Is the vehicle information correct?	67	33	27	73
If a data error was known by the agency (answered yes on question 1), was DFO notified of the error?	40	60	100	0

Data errors were responsible for 33 percent of the vehicles listed on the MPG report and 73 percent of vehicles on the zero miles report.

We reviewed the vehicle information on the exception reports with each of the fleet coordinators for the six agencies. The review showed that the vehicle information in FleetFocus is not always accurate. Thirty-three percent of the sample of vehicles reviewed on the miles per gallon (MPG) exception report and 73 percent on the zero miles exception report were due to data errors. One of the purposes of the exception reports is to review them for data errors and make corrections, but if the reports are not reviewed regularly and data errors are not corrected, then DFO data become unreliable.

MPG Exception Report Contained Vehicles That Should Not Have Been Listed. Most of the vehicles listed on the MPG exception report should not be listed, given their use. The agencies should work with DFO to determine if these vehicles can be "flagged" on the information system or if criteria can be adjusted, so the vehicles don't appear on the exception reports and create "information clutter." Most of the vehicles met the criteria, but they were only slightly below or above the normal range—the expected gallons of fuel used, given the vehicle type.

After reviewing the exception report, we found that those vehicles that regularly pull trailers and other heavy loads usually drove short distances or very long distances; one vehicle has two motors that use fuel from one gas tank, so it is not surprising that those vehicles were slightly below or above the parameters for the normal range. From the sample of vehicles reviewed, it appeared that all state vehicles were used appropriately and there was no evidence of state employees using vehicles for personal use. However, inaccurate data makes a full assessment difficult.

Zero Miles Exception Report Also Contains Errors. Twenty-seven percent of the sampled vehicles listed on the zero miles report were not utilized. For the 27 percent of the vehicles that were not utilized during the month, the sample showed three reasons why the vehicles were not utilized:

- Vehicles are used as a relief vehicle when other vehicles need to be repaired.
- Vehicles are scheduled to be replaced or disposed and are not being driven.
- Vehicles need to be, or are in the process of being, reassigned to different employees or offices.

One reason vehicles were inappropriately listed on the zero miles report was because users have not been using the state gascard when refueling vehicles.

Of the 73 percent that were utilized, over half were listed because of the lack of vehicle information. For example, vehicles were listed on the zero miles report because the gascard had not been used when refueling vehicles. If the gascard is used when refueling vehicles, the employee has to enter the current odometer reading. But if vehicles are refueled using a personal credit card, or vehicles are refueled from bulk fuel tanks on farms, then the gascard is not used, and it appears that vehicles have not been used.

Other reasons why vehicles were listed on the report include: a fuel site in a rural area wasn't correctly recording odometer readings when entered at the time of fueling, two vehicles were refueled with the same gascard, a vehicle was used so infrequently that it didn't need refueling for over a month, and employees had entered the wrong odometer reading at the time of refueling.

When a data error is discovered in DFO's information system, timely corrective action should be taken.

A few fleet coordinators commented that even though they had reported fleet data errors to DFO, sometimes the same errors will show on the next month's exception report because the data problem had not been corrected. When exception reports are not regularly reviewed and timely corrective action not taken, inefficiencies and additional costs occur within fleet operations. For example, when vehicle data is not as accurate as it could be, and the exception reports list vehicles that should not be listed, fleet coordinators and DFO need more time to review reports. As a result, vehicle costs are not as tightly controlled and there is a greater likelihood that inappropriate use would not be discovered.

DFO Can Better Assist Agencies in Monitoring Fleet Information

To manage the fleet more effectively, DFO can take some steps to assist agencies in monitoring vehicles they own or lease from DFO:

DFO can take some steps to better manage and monitor fleet information.

- DFO can better assist agencies by providing exception report notifications consistently.
- DFO should require better feedback and cooperation from user agencies.
- DFO should consider periodically auditing exception reports.

In the past, DFO has not consistently sent exception report notifications to agencies.

DFO Can Better Assist Agencies by Consistently Providing Exception Report Notifications. From January 2005 to May 2005, the audit reviewed how frequently the miles per gallon and zero miles exception report notifications were sent to agencies and found that notifications have not been sent to agencies every month. DFO sent miles per gallon exception report notifications to agencies in January, April, and May. The zero miles exception report notifications were sent for three months: March, April, and May.

Looking at the last few months that DFO has been sending exception report notifications, we found that the number of vehicles on the exception reports has decreased since January. This decrease may be partially due to agencies receiving notifications from DFO, reminding them to review their vehicles listed on the exception reports. The figure below shows number of vehicles on the MPG and zero miles exception reports since January 2005.

Since January 2005, the number of vehicles listed on the MPG has decreased by 23 percent, and the vehicles listed on the zero miles report has decreased by 20 percent.

Figure 7. Total Vehicles Listed on MPG and Zero Miles Exception Reports. The number of vehicles listed on the exception reports has decreased since January.

	Count of Vehicles on the Exception Reports			
Type of Report	**January**	**March**	**April**	**May**
MPG	1,106	Not Sent	852	854
Zero Miles	Not Sent	403	350	322

Note: Exception report notifications were not sent to agencies in February.

If 15 percent of the vehicles on the zero miles report were not utilized, it would still cost the state about $12,000 to pay the monthly fixed lease rate even though those vehicles were not utilized.

The sum of the vehicles listed on the MPG and zero miles exception reports for the month of May equals 16 percent of the total state fleet. The audit describes, in the previous section, that a majority of all vehicles listed on exception reports appeared to be utilized cost-effectively, given the nature of their use. But, 15 percent of the vehicles on these two exception reports combined could probably be utilized more cost-effectively. If 15 percent of the vehicles on the zero miles report for the month of May were not utilized, it would still cost the state, on average, about $12,000 to pay the monthly fixed lease rate for those non-utilized vehicles.

Agencies should report data errors to DFO.

DFO Should Require Better Feedback and Cooperation from User Agencies. DFO should consider asking agencies not only to investigate why vehicles meet the criteria for the exception reports, but also to report back to DFO. DFO should then remove vehicles that don't qualify from the list and work with agencies to manage vehicles more cost-effectively that meet exception report criteria. DFO sends a form letter notifying agencies if state vehicles that they lease or own appear on an exception report. The letter asks agencies to review the exception reports and offers assistance with the on-line reports, but it does not require feedback from the agencies. In the past, only a few agencies reported back to DFO concerning vehicles listed on the reports.

DFO Should Consider Periodically Auditing Exception Reports. Such an audit should review vehicles listed on the exception reports, look for inefficiencies within fleet operations, and continue to review and update the criteria that "flags" vehicles for exception reports.

Fleet management offices in other states report that they periodically audit their vehicle information.

Fleet management offices in other states monitor their fleet information. We contacted fleet offices in other western states to determine who is responsible for monitoring fleet information. Of the eight states contacted, seven states said that the fleet management offices assume the responsibility to monitor fleet information. The frequency that other state fleet management offices monitor information varies. Fleet information is reviewed biweekly by one office, monthly by some offices, and biannually or annually by two offices.

Three states said state agencies also have some responsibility to monitor information for their fleets. One state said that in the past, state agencies had the responsibility to monitor fleet information, but agencies didn't do it consistently, so fleet management now monitors the information for all agencies. Only one state that has a decentralized fleet authorizes the agencies to solely monitor fleet information.

A thorough cooperative review with agencies should improve the accuracy of the exception reports.

DFO needs to assist agencies by reviewing the zero miles and other exception reports. At the beginning of the audit, DFO suggested that the audit include a review of vehicles listed on the zero miles report to determine why those vehicles had not been utilized. A thorough cooperative review should improve the accuracy of exception reports and assist agencies in being more cost-effective. If a vehicle is consistently being underutilized and the agency is not taking steps to maximize the use of the vehicle, DFO has the authority to reassign the vehicle to another agency where it can be utilized more cost-effectively.

Most Agencies with the Highest Number of Vehicles Listed on Exception Reports Also Have the Highest Number of Owned Vehicles. The agencies that have the highest number of agency-owned vehicles are: USU, owning 87 percent of its fleet; U of U, 89 percent; Department of Natural Resources, 39 percent; and Department of Transportation, 52 percent. Figure 8, below, shows the same agencies and institutions, except Natural Resources, with the most vehicles listed on the MPG and zero miles exception reports for May 2005.

USU and U of U have the highest number of vehicles on the MPG and zero miles exception reports.

Higher education institutions own most of the vehicles they use and follow their own policies.

Figure 8. Agencies and Institutions with the Highest Number of Vehicles on MPG and Zero Miles Exception Reports. Most of the same agencies have the highest number of vehicles listed on each of the exception reports from January to May.

May 2005 Exception Reports		Agency/Institution USU	U of U	FO	UDOT
MPG	Count of Vehicles on Report	290	130	108	**
	% of Total Vehicles Listed on Report	34%	15%	13%	**
Zero Miles	Count of Vehicles on Report	123	56	**	49
	% of Total Vehicles Listed on Report	38%	17%	**	15%

*** Agency did not fit criteria – as one of the agencies with the highest number of vehicles listed on the exception report.*
FO = Fleet Operations

Agencies and institutions with the highest numbers of vehicles listed on the exception reports are among the 13 agencies and institutions with the largest fleets.

In 1999, the Legislature made the decision to consolidate the state fleet. Higher education was given an exemption at that time, but there has been an ongoing debate about whether this exemption was permanent. With this exemption, higher education institutions purchase most of their own vehicles but continue to use the state vehicle purchase contract. Under this scenario, higher education institutions own the vehicles and follow their own policies. As an example of policy differences, they do not dispose of some vehicles following DFO policy; some vehicles are used longer than DFO policy dictates.

The audit looked at the formation of fleets in other western states. Seven of the eight western states contacted have mixed fleets, similar to Utah. In other words, those seven states have some of the agencies'/institutions' fleets consolidated and lease vehicles from the state fleet, and some agencies' fleets are independent and buy their own vehicles.

The data for all state vehicles, whether agencies own or lease, are tracked on DFO's information system.

In Utah, the Department of Natural Resources has functioned more independently in the past, but needs to continue moving toward consolidation. The Department of Transportation (UDOT) owns half of the vehicles they use, the heavy-duty vehicles. The department purchases a large quantity of heavy-duty equipment, such as snow plows, that DFO could also purchase for them, like they do for other agencies. Whether state agencies own or lease vehicles from DFO, the data for all vehicles is tracked on FleetFocus and should be monitored to ensure that state vehicles are utilized cost-effectively.

Take-Home Vehicles Need to Be Tracked and Monitored More Effectively

DFO should periodically review take-home vehicle information for accuracy and review take-home vehicle assignments.

DFO needs to accurately track take-home vehicle information and monitor the take-home program to ensure that state agencies are complying with state and federal requirements. DFO should periodically review take-home vehicle information for accuracy and review vehicle assignments to ensure that these vehicles are needed for state employees to successfully carry out their job functions. It appears that some current take-home vehicle assignments are unnecessary for performing job duties as outlined by state policy.

The take-home vehicle program was reviewed because this is an area within fleet operations with a high probability of state vehicle misuse. The take-home vehicle is designed to assist state employees to perform their job functions cost-effectively. As a result, the take-home vehicle program should benefit the State.

DFO Needs to Encourage Agencies to Comply with Take-Home Vehicles Regulations

DFO issues rules governing take-home use of state vehicles in accordance to IRS regulations.

DFO oversees the operations of the take-home vehicle program. DFO issues rules and regulations governing take-home use of state vehicles in accordance with IRS regulations. This year, DFO has worked to clarify take-home vehicle definitions and to train agencies. When we surveyed state agencies regarding take-home vehicles, we learned that some of the agencies' fleet coordinators do not clearly understand take-home vehicle definitions. DFO needs to continue to clearly define and communicate to state agencies the take-home classification to ensure state and federal requirements are followed.

State employees are allowed take-home use of state-owned vehicles as approved by the executive directors of state agencies following the criteria outlined by DFO. Directors are authorized to approve commuting when it benefits the State. According to ***Administrative Rule*** R27-3-7, take-home use may be approved when one or more of the following conditions exist:

- **Employee On-call**—The agency clearly demonstrates that the nature of a potential emergency (danger to human life or significant property damage) is such that a take-home privilege is needed to increase response.

- **Virtual Office—**The agency clearly demonstrates that an employee is required to work at home or out of a vehicle a minimum of 80 percent of the time, and the assigned vehicle is required to perform critical duties.

- **Practicality**—The agency clearly demonstrates that it is more practical for the employee to go directly to an alternate work site rather than report to a specific office to pick-up a state vehicle.

- **Part of Compensation Package—**A vehicle is provided to appointed or elected government officials who are specifically allowed by law to have an assigned vehicle as part of their compensation package.

State employees are allowed take-home use of state vehicles, but it should benefit the State.

Personal use of state vehicles is not allowed without direct authorization of the Legislature. Only 32 elected and appointed officials, as defined in ***Utah Code*** 67-22-1 and 67-22-2, and highway patrol officers have personal use privileges of state vehicles as stated in ***Utah Code*** 41-1a-407.

Personal use of state vehicles is not allowed without direct authorization of the Legislature.

According to ***Administrative Rule*** R27-3-6, DFO has the responsibility to take approved take-home vehicle requests from state agencies, enter the information in a database, and provide an identification number to both the driver and the agency. All approvals for take-home privileges expire at the end of the calendar year in which they were approved. State agencies have the responsibility for submitting any request for annual renewal of commute or take-home privileges.

Federal Requirements Govern the Commute Policy. Internal Revenue Service (IRS) regulations classify commuting in a state-owned vehicle as a taxable fringe benefit. Therefore, unless exempt under IRS

A take-home vehicle is considered a taxable fringe benefit for non-exempt state employees.

regulations, employees who take a vehicle home from work must either reimburse the State on a monthly basis or have the dollar value of their personal commuting included in their annual taxable income. Reimbursement of the value for a one-way commute (that is, from home to work or from work to home) is $1.50 unless the employee is an elected official or is exempt.

In accordance with IRS publication ***15-B***, employees with a permanently assigned vehicle are exempt from the imputed daily fringe benefit for take-home uses that meet the criteria for both a "working condition benefit" and a "nonpersonal use" vehicle. A "working condition benefit" exclusion applies to vehicles a state agency provides to an employee so that the employee can perform his or her job. This includes some state employees who do not work in state offices, such as state dairy inspectors, who travel throughout the state to inspect dairy farms. Qualified "nonpersonal use" vehicles generally include all of the following vehicles:

- Clearly marked police and fire vehicles
- Unmarked vehicles used by law enforcement officers if the use is specifically authorized
- Vehicles such as delivery trucks, vans, or pick-ups designed to carry heavy cargo, or large equipment such as a hydraulic lift
- School and passenger buses
- Tractors and other special purpose farm vehicles

We surveyed 30 employees from DFO's take-home database. Twenty-seven employees were assigned take-home vehicles, and three employees were not assigned, but were listed on the database. From that survey, seven employees were considered exempt from the imputed daily fringe benefit. However, it appears that one of the seven exempt employees in that sample may not be exempt, according to IRS regulations, and should be reimbursing the State. DFO should annually audit assigned take-home vehicles to ensure that state agencies are complying with state and IRS regulations.

DFO should consider periodically auditing assigned take-home vehicles to ensure that state agencies are complying with state and IRS regulations.

DFO is not responsible to handle the imputed fringe benefit that state agencies report to the Division of Finance. State agencies that permit the use of take-home vehicles have the responsibility to enter the commute fringe benefit into the payroll system on a monthly basis. However, DFO is responsible to manage and monitor the state fleet, which includes overseeing take-home vehicle procedures.

Accurate Take-Home Vehicle Data Is Needed to Monitor Appropriate Use

DFO does not have accurate and complete data for the take-home program.

The audit found that DFO does not have accurate and complete data related to the take-home program. DFO has a database to maintain information on employees and vehicles authorized for take-home privileges. Last February, DFO sent an email to all state agencies, asking them to update information on their take-home vehicle database. The audit identified some problems with the accuracy of the data in the database.

After interviewing fleet coordinators and reviewing a sample of employees with take-home vehicles, we believe the main two reasons the data is not accurate are: (1) fleet coordinators don't clearly understand take-home use definitions (commute, business, and personal use)—this is partially because DFO has been changing the take-home vehicle definitions; and, (2) due to changes in job positions, some employees are listed as having been assigned a state vehicle for take-home use, but now are no longer assigned. DFO needs to clearly communicate to agencies how to properly classify take-home vehicles, so that take-home vehicles are in compliance with IRS regulations.

To review the accuracy of the information in DFO's database, we first compared DFO's database with a list of the 2005 registered commuters for the state from the Division of Finance. FI-NET lists 76 registered commuters, employees who are permitted to take a vehicle home, and have to reimburse the State on monthly basis. However, DFO's database only classifies 26 take-home vehicles for commute purposes. After our interviews with fleet coordinators, it appears that the main difference between databases could be a data classification problem. One agency reported to DFO that none of their take-home vehicles were used for commuting, but when we contacted the agency, six—or 3 percent, of their vehicles are used for commute purposes.

Some take-home vehicles are mis-classified in DFO's database.

We also reviewed the sample of 30 take-home vehicles from DFO's database to test the accuracy of the database and determine if take-home vehicles are appropriately assigned. The sample showed that 20 vehicles, or 67 percent, were classified correctly (business, commute, or personal use).

- Seven vehicles, or 23 percent of the assigned take-home vehicles, were classified incorrectly.

- Three employees, or 10 percent of the sample, were not actually assigned take-home vehicles, even though the database showed the employees were assigned vehicles.

Of a sample of state vehicles, 20 percent may not need to be assigned as take-home vehicles.

We also looked at the sample to determine if take-home vehicles are appropriately assigned. We contacted each of the 30 employees assigned a take-home vehicle to learn what their jobs entail, why the employees were assigned vehicles, what they used the take-home vehicles for, and how often they used the vehicles. The sample showed that six employees assigned take-home vehicles, or 20 percent, may not need an assigned take-home vehicle to adequately perform their job duties using the ***Administrative Rule*** R27-3-7 for criteria. For example, one employee assigned a take-home vehicle stated that he didn't know why he has commute privileges.

The survey data are self-reported by state agencies and have not been verified by DFO. DFO should take steps to periodically review the accuracy of the take-home vehicle data, and monitor take-home vehicles. Because take-home vehicles pose high risks for inappropriate use, DFO should monitor them annually, which should include a review by the department's internal auditor.

Not All State Agencies Assign Take-Home Vehicles

Other western states allow take-home vehicles.

One of the audit objectives, as described above, was to review the assigned take-home vehicles to determine if these vehicles are needed to adequately perform a job. We contacted seven western states to determine if they allowed take-home vehicles. All seven states allow take-home vehicles to some extent. Three states only allow take-home vehicle use for law enforcement and on-call employees. Three states allow some employees other than law enforcement officers take-home vehicle use, but they must follow strict criteria. One state has a more open policy structure. The fleet management office doesn't oversee take-home vehicles, and individual agencies are solely responsible.

Fifty-eight percent of all state agencies don't authorize or have the need for take-home vehicles.

Utah permits take-home vehicles but requires state agency approval for employees who are not law enforcement officers. Currently, 671 state vehicles in the state fleet are used for take-home purposes, not including 571 patrol vehicles. The following four state agencies make up the majority of the take-home vehicles—not including patrol vehicles:

- Public Safety—232 vehicles
- Transportation—105 vehicles
- Natural Resources—102 vehicles
- Corrections— 88 vehicles

Not all state agencies and institutions authorize take-home use of state vehicles. Fifty-eight percent of all state agencies and institutions don't authorize or have the need for take-home vehicles.

To ensure that the take-home program benefits the State, DFO should periodically conduct an assessment of the program to determine if the program is functioning as intended, according to state and federal requirements.

Recommendations

1. We recommend that DFO provide exception reports to state agencies on a monthly basis.

2. We recommend that DFO request state agencies to review exception reports and inform DFO of incorrect vehicle information.

3. We recommend that DFO periodically monitor a sample of vehicle information data to determine if vehicle information is accurate and vehicles are being used appropriately.

4. We recommend that DFO annually monitor take-home vehicles and encourage state agencies to:
    - comply with state and federal requirements, and
    - determine if take-home vehicle assignments are appropriate.

Chapter III
Better Control Over Vehicle Utilization Would Be Beneficial

The Division of Fleet Operations (DFO) can better track the utilization of the state's 7,300 vehicles. Vehicle utilization, or the extent to which vehicles are being used, is important to monitor because underuse may indicate that the fleet has more vehicles than it needs. Tracking vehicle utilization can yield information on the cost-effective use of individual vehicles and the fleet as a whole. DFO has become more proactive in its approach to utilization but can still enhance its utilization management program. As an example, rotating low and high mileage fleet vehicles to even out the mileage could reduce DFO depreciation and maintenance expenses.

Since the audit began, DFO's management of vehicle utilization has improved. The audit found that DFO was leaving much of the utilization management responsibility to agencies who sometimes were neither inclined nor prepared to perform these management tasks. However, DFO is now taking more responsibility upon itself for managing utilization, a necessary step toward cost-effective vehicle utilization. DFO has also created mileage standards and has designed a plan to monitor utilization in the future.

These changes to improve vehicle utilization are important because, according to fleet management information from the Federal Government, "[vehicle utilization] represents the most significant single opportunity for cost avoidance." Utilization studies can save costs in two ways—by helping to identify vehicles that may not be needed, and by identifying vehicles that should be used more or less in relation to other vehicles in the fleet.

Utah's Fleet Utilization Program Can Be Enhanced

The state's low-mileage vehicles we reviewed, while not achieving optimum utilization, still appear to be necessary because they are either used frequently or are special purpose vehicles that are necessary for specific tasks. Though elimination, in most cases, does not appear to be possible, vehicle rotation would allow more efficient use of the fleet. Rotating vehicles would help DFO sell more vehicles at the optimal time in miles and years. The vehicles in Utah's fleet travel anywhere from under 1,000 to over 30,000 miles per year and are usually sold when the vehicles are between two and twelve years old.

DFO Should More Closely Monitor The Need for Low-Mileage Vehicles

Despite low mileage, most state vehicles in two samples of low-mileage vehicles appeared to be needed and used. Clearly, if a vehicle is not being utilized at minimum levels, either in terms of miles or how frequently it is used, it may not be needed and the costs associated with that vehicle could be eliminated. Another factor for determining if a vehicle should be in the fleet is whether or not it fulfills a special purpose.

Mileage is a factor in determining the need for a vehicle, but it is still just one factor. Some vehicles have low annual mileage but are used frequently. Vehicles in a campus environment such as a university, the state prison, or the state hospital often fall into this category. These vehicles are needed and can be used every day for mission-critical purposes. These low annual mileage vehicles might be referred to as campus or "captive" vehicles—vehicles whose use is regularly confined to a small area. One wouldn't expect to see the same annual mileage on these vehicles as on vehicles that travel statewide.

Special purpose vehicles may have low mileage and low frequency of use, but they may still be necessary. For instance, a flatbed truck might be used to transport freight from one campus location to another. Used in a campus environment, it might have low annual mileage and would be used only when freight needs to be moved. However, despite its low mileage and low frequency of use, the flatbed truck fills a unique need that can't be satisfied through other means. It is, therefore, justified to remain in the fleet.

Vehicles with low annual miles may still be needed.

We sampled low-mileage vehicles and tested for frequency of use and the purpose of the vehicle. In the first of two samples, we reviewed vehicles (including sedans, vans, SUVs, and trucks one ton or less) that traveled less than 7,500 miles in 2004. This sample found:

- Eighty percent of the vehicles were used at least 80 percent of the time.
- Ten percent were used at least 60 percent of the time.
- Ten percent of vehicles were used infrequently but were special purpose vehicles.

Despite the low mileage of these sample vehicles, they appear to be needed, either because they are used frequently or because they fulfill a special purpose. Even the 10 percent of the surveyed vehicles that were used infrequently were required to fill a specific need that couldn't otherwise be filled. A good illustration from this sample would be the flatbed truck referred to previously.

In the second sample, the audit team looked specifically at sedans with 3,000 or fewer miles for one year, those at high risk for being underutilized. The audit identified problems in 12 percent of the sample. Overall, the sample found:

- Sixty-four percent of the vehicles were used at least 60 percent of the time.
- Twenty-four percent of the vehicles were used less than 60 percent of the time, but were special purpose vehicles.
- Twelve percent of the vehicles were used less than 60 percent of the time and were not special purpose vehicles.

This final category of 12 percent, representing 12 of the 97 sedans with less than 3,000 miles, should undergo further review, as we did not factor in other possible vehicle demands at the same locations. Use of these vehicles could probably be absorbed by other vehicles in the local agency fleet.

The frequency of use measure is an indicator of need, but not an assurance that the fleet is the appropriate size. In both samples, it is possible that the demand for some of the more frequently used vehicles could be absorbed by other vehicles, depending on usage patterns where the vehicles are located. In situations where the number of vehicles can't be reduced, vehicle rotation may provide a method to increase mileage usage on those vehicles.

Vehicle Rotation Could Result In a More Efficient Fleet

The DFO can also address low-mileage vehicles, as well as high-mileage vehicles, by implementing a rotation program. Utah's fleet utilization would benefit from rotating vehicles so that they are sold at the optimal time in miles and years. Vehicle rotation does have some possible problems but could save the state in annual fleet turnover and maintenance costs.

Western states replace vehicles at between 85,000 and 120,000 miles and between five and ten years. The National Association of Fleet Administrators found that the median replacement policy of public fleets is 100,000 miles, or six years. According to DFO, the optimal time to replace a vehicle from Utah's fleet specifically is at six years and 90,000 miles, or 15,000 miles per year. Utah has a policy of replacing vehicles generally at 90,000 miles with no year limitation. Figure 9 shows the variation of annual mileage of Utah' s fleet by vehicle category.

Figure 9. Miles Traveled by Vehicle Category in 2004. Miles traveled ranges significantly, even within a vehicle category.

	Annual Miles				
Vehicle Category	**0 - 5,000 Miles**	**5,000 - 10,000 Miles**	**10,000 - 15,000 Miles**	**15,000 - 20,000 Miles**	**Above 20,000 Miles**
Sedans	10% (141)	19% (258)	27% (372)	21% (279)	23% (321)
Trucks (1 ton and less)	38%	19%	18%	14%	11%
Utility Vehicles	12%	21%	21%	21%	25%
Vans	37%	26%	18%	10%	9%

With Utah's fleet having such a wide range in miles driven, vehicle rotation appears to be a plausible idea worth pursuing. Generally, sedans are the best candidates for rotation because, for most sedans, their primary purpose is to transport passengers. Rotation among the other vehicle types is possible, but it would be complicated by vehicles with special equipment and needs.

Some western states have limited rotation programs. The focus in some programs seems to be rotating low-utilized vehicles to areas that get more use. Other programs move high-mileage vehicles to low-utilization areas to even out the miles. The amount of vehicle rotation control differs among states and might be impacted by whether the central fleet office or the agency owns the vehicles.

Vehicle rotation does have some possible problems. Some employees may not like the idea of switching vehicles because they tend to think of vehicles as "theirs." Along those lines, some employees take very good care of their vehicles while others do not. Accounting and logistical challenges to vehicle rotations would also have to be dealt with. Further, because universities own most of their vehicles, vehicle rotation using university vehicles could present a problem. We recognize that vehicle rotation isn't possible with all vehicles, even among sedans—in some cases it may be cost prohibitive. However, even with the challenges, we believe that vehicle rotation is a concept worth exploring for DFO, where it is found to be both feasible and cost-effective.

Management of Utilization Has Improved

Since the audit began, DFO has significantly improved state vehicle utilization management and corrected some deficiencies found during the audit. DFO has taken more responsibility for utilization by developing a plan to monitor utilization more effectively, much of which was previously left to the agencies. The division has also created clear minimum utilization standards, outlining a course of action when vehicles don't meet those standards; before, they didn't have minimum utilization standards.

DFO has made other efforts to encourage better utilization. For example, to discourage agencies from holding on to vehicles they don't need, DFO set up the capital credit program which gives agencies an incentive to turn in underused vehicles. In exchange for turning in an underused vehicle, agencies don't have to pay the monthly lease, and for two years they have the option of getting another vehicle without having to ask for legislative approval. Unfortunately, according to the DFO director, few agencies have taken advantage of this program.

DFO Should Ultimately Be Responsible For Vehicle Utilization Management

In Utah, DFO is the entity ultimately responsible for achieving efficient vehicle utilization. The division can achieve better control and hence better utilization by improving its follow-up with agencies. In ***Administrative Rule*** R27-4-12, DFO is charged with the responsibility for utilization:

DFO is responsible for vehicle utilization.

> DFO is responsible for state motor vehicle fleet management, and in the discharge of that responsibility, one of DFO's duties is to insure that the state is able to obtain full utilization of, and the greatest residual value possible for state vehicles.

Other western states manage utilization in a variety of ways. Among these states, three manage utilization centrally and three leave it to the agencies, as Utah did until the audit. Two others have mixed management, where the central fleet office manages vehicles it owns, but agencies manage utilization for the vehicles they own.

For a number of reasons, we believe that utilization in Utah should be overseen by DFO, not left to agencies. The ***Administrative Rules*** clearly show that DFO has that responsibility. Furthermore, agency fleet managers may lack the fleet knowledge and understanding necessary to manage utilization, and they often have other pressing responsibilities. In the end, as the responsible entity, DFO needs to provide oversight and be aware of how vehicles in the state fleet are utilized.

DFO needs to have a practice or procedure in place to find out why a vehicle has low miles or if, in fact, it is underutilized. The division should also require feedback and provide a mechanism to ensure that, if needed, an appropriate change in vehicle use takes place. DFO has recently developed such procedures to manage utilization.

Newly Developed Utilization Standards Should Lead to More Cost-Effective Utilization

Implementation of DFO's new utilization standards should improve the fleet's utilization. At the start of the audit, DFO did not have sufficient utilization standards to reasonably determine if vehicles were being utilized cost-effectively. Utilization standards should be meaningful measures of the need for vehicles, leading effectively to the end goal of having the right number of vehicles to accomplish the various missions of state agencies and institutions. In order for mileage utilization reports to be meaningful, agency fleet managers and DFO itself must have adequate standards against which to compare actual vehicle usage. The newly developed standards appear to be a helpful gauge.

Utilization based only on miles misses frequency and need information.

For the most part, DFO's efforts to assess utilization have been focused on measuring miles. We believe that DFO should also consider a tiered approach looking at, in addition to mileage, the frequency of use and the vehicle's purpose.

For example, an Idaho audit report suggests using the following three-step process for identifying underused vehicles:

1. Review annual mileage for all vehicles and compare to agency standards. Identify vehicles that do not meet the standards.

2. Review the frequency of use for these vehicles and compare to agency standards. Identify vehicles that do not meet the standards.

3. Determine the purpose and need for vehicles that do not meet mileage and frequency of use criteria. If retention of vehicles is justified, record purpose and projected annual mileage. If not, rotate vehicles to an area of higher need or eliminate without replacement.

The cost of alternatives can also be factored into the decision to identify underused vehicles. If the cost of a viable alternative is less than the total cost of leasing or owning the vehicle, that alternative should be further explored. Alternatives could include personal vehicle mileage reimbursement, public transportation, DFO pool vehicles, intra-agency vehicles, interagency vehicles, and private company rentals.

To its credit, DFO has begun the process of assessing the utilization of the state fleet and has developed a plan to monitor utilization afterward. This assessment and continual monitoring will also help improve the utilization of state vehicles.

Recommendations

1. We recommend that DFO continue to take ultimate responsibility for vehicle utilization by continuing to monitor the fleet's utilization.

2. We recommend that DFO study the issue of vehicle rotation and, where it is shown to be both feasible and cost-effective, implement a rotation program.

3. We recommend that DFO develop a procedure to find out why vehicles have low miles and require feedback from the agencies to ensure that, if needed, an appropriate change in vehicle use takes place.

Chapter IV
Daily Pool Efficiency Can Be Improved

Eliminating vehicles will increase utilization and increase cost recovery.

The Division of Fleet Operation's (DFO) daily pool program did not recover approximately $490,000 of its $1.1 million total fiscal year 2005 operating costs. Rate increases for fiscal year 2006 should cut this deficit down to $190,000. DFO can further reduce the deficit by eliminating vehicles and locations from the daily pool and reviewing administrative costs of the various locations. Eliminating vehicles will increase the utilization of the remaining pool vehicles and help increase cost recovery by reducing costs.

The daily pool, with only 123 vehicles, is a small but noticeable part of DFO's operations. Working out of 10 pool locations, its vehicles are intended to be utilized by agencies that only need vehicles on a limited basis. More extensive vehicle needs should be handled through the monthly lease program. It is clear, however, that some daily pool vehicles, due to pool site placement, no longer meet this intended limited use.

Size of Daily Pool Can Be Reduced In Both Vehicles and Locations

We estimate that at least 40 vehicles in the daily pool fleet are used principally (90 percent of reservations) by one agency. These single-agency-use motor pool vehicles, if poorly utilized, should be eliminated, while those with high utilization could be transferred from the daily pool to the host agency as monthly rentals. In addition, DFO should consider further consolidation of pool sites to reduce costs and increase utilization.

Some Daily Pool Dispatch Locations Have Unnecessary Vehicles

Forty-plus vehicles from the 10 daily pool sites were used principally (in more than 90 percent of the reservations) by the host agency. With limited use by other agencies, these vehicles seem better suited for monthly leases rather than a daily pool environment. In fact, a few years ago, many of these host agencies used monthly leased vehicles instead of the daily pool. The change to using the daily pool was part of DFO's strategic plan to better utilize vehicles.

Six years ago, DFO noticed that many agencies had small motor pools of their own where vehicles were being underutilized. As part of their strategic plan, DFO took over responsibility for these pools with agency approval. After assessing the need for vehicles at those locations and in the daily pool as a whole, DFO made reductions in the daily pool fleet.

According to DFO's 2004 annual report, the vehicle inventory has decreased from 255 to 164 since 1999. The inventory in August 2005 had been cut down to 123. With these reductions, DFO expects the fleet's efficiency to be better than it was in 1999 when agencies gave up their pooled vehicles. Thus, it may be a good time for DFO to consider letting some agencies manage their own monthly vehicles again now that the need for vehicles has been tracked for a number of years.

A vehicle that is not well utilized but is used principally by one agency should either be eliminated or moved to a location with more vehicle needs. If a vehicle is well utilized by only one agency, it should be the responsibility of that agency, where the agency bears the full cost of the vehicle. With the new daily rates for fiscal year 2006, agencies needing vehicles for more than 100 days per year should find the monthly lease program more cost-effective for them.

Some Daily Pool Dispatch Locations Could Convert to Agency Pools

At a number of daily pool sites, the host agencies accounted for more than 90% of the total reservations.

Four daily pool dispatch locations—Salt Lake Blind and Deaf School, Heber Wells, Cannon Health, and Human Services are used principally by their hosting agencies. More than 90 percent of the total vehicle reservations at those locations were made by the host agency. Figure 10 shows how often daily pool vehicles were used by the hosting agency of the dispatch location and how often other agencies leased from that location.

Figure 10. Use of Daily Pools by Host Agency. A number of the daily pool locations were used a high percentage of the time by the host agency.

Daily Pool Location	August 2005 Inventory	Reservations by Host Agency	Reservations by Non-Host Agency
SLC Deaf & Blind	9	98%	2%
Heber Wells	3	94	6
Cannon Health	17	91	9
Human Services	19	90	10
Ogden Deaf and Blind	21	83	17
Provo	3	59	41
Tax Commission	13	55	45
Capitol Hill	20	53	47
Surplus	13	34	66
Draper	3	28	72

DFO can continue to restructure its daily pool locations. When a host agency is virtually the only agency using pool vehicles, we question the need for a DFO supported daily pool dispatch location. The geographic location of dispatch offices might be another factor for DFO to consider. For example, a number of daily pool dispatch locations in Salt Lake City are within just a few miles of each other. The consolidation of sites could reduce administrative costs but may be inconvenient to the customer. DFO needs to review the location of daily pools and determine if further changes would make the overall operation more effective and efficient.

As part of the location review, DFO needs to reevaluate the costs paid to agencies to manage those locations. Currently, agencies bill DFO for the time spent doing daily pool work, but there may be concerns with how accurately agencies are reporting their time. We found that the cost per reservation varied considerably from location to location. DFO should also consider the utilization of specific locations.

Consolidating dispatch locations would bring Utah closer to the number of daily pool locations in other states. Figure 11 shows the number of daily pool sites maintained in the surrounding states.

Figure 11. Daily Pool Sites in Other States. With 10 sites, Utah has significantly more daily pool locations than surrounding states.

State	Daily Pool Locations	Total Vehicles
Arizona	1	170
Colorado	2	60
Idaho	0	0
Nevada	3	150
Washington	2	119
Wyoming	1	100
Montana	1	250
Oregon	3	250
Utah	10	123

As Figure 11 shows, although the number of vehicles in Utah is about average, the number of daily pool locations in Utah is much greater than in surrounding states. Some of these states rely on the use of personal vehicles or monthly lease vehicles in more remote locations.

Further Changes Needed for Daily Pool to Recover Costs

DFO needs to cut costs by reducing vehicles, thus increasing utilization of the remaining vehicles.

In order to reduce the daily pool deficit, DFO needs to cut costs by reducing vehicles, thus increasing utilization of the remaining vehicles. Data from the first two months of fiscal year 2006 show that costs are still not being recovered, even after the new rental rate increases. Although these changes should eliminate $300,000 of the existing $490,000 deficit, a $190,000 deficit will remain if nothing more is done. The daily pool's fiscal year 2006 goals of cost recovery and increased fleet utilization do not appear to be possible without reducing vehicles. Each of these goals affects the other, and the key for DFO is to find the proper balance of utilization and cost recovery. The relationship between DFO's goals means that the increased rates of fiscal year 2006 may drive utilization lower than expected, thus preventing full cost recovery.

Fiscal Year 2006 Rates Will Increase Revenue But Will Still Fall Short of Full Cost Recovery

DFO, with approval of the rate committee and the Legislature, raised daily pool rental rates by about 125 percent. However, if utilization rates continue from last year, this rental rate increase will not be sufficient to recover costs. The new rental rates are, however, a marked improvement over the system used for fiscal year 2005.

In order for the daily pool to fully recover vehicle costs in fiscal year 2005, daily pool vehicles would have had to have 100-percent utilization values, basically being used 240 days in the year. In reality, vehicles averaged only about 60-percent utilization, losing 40 percent of the needed revenue. In addition, in fiscal year 2005, administration was yet to be included in the rates, so a large portion of the loss was from this administrative overhead. DFO made up the loss by charging higher fees for monthly lease vehicles.

DFO is now basing its daily rates on a 75-percent utilization factor, rather than the flawed 100 percent utilization factor used in the past, and now includes an administration fee to cover daily pool overhead. If utilization continues at the same level of 60 percent, the rates based on the 75-percent utilization goal will still not be sufficient for full cost recovery. In the case of a compact car, this would mean accepting an annual loss of $480 per vehicle rather than a loss of $960.

Overall, we anticipate that with current utilization values, the daily fleet will still need over $60,000 in monthly user subsidy to recover direct vehicle costs. Although DFO established an administration fee in fiscal year 2006 to cover daily pool overhead, it will also fall short due to utilization being below 75 percent. Figure 12 demonstrates the change in the daily pool's rate structure.

Figure 12. Rate Changes From FY 05 to FY 06. Rates approved by the Legislature for FY 06 will increase daily pool revenue by charging a daily pool administration fee of $8.05 per rental and using a 75-percent utilization factor. The last column shows rates that would recover costs at last year's utilization level. The three vehicle types below represent about 90% of the daily pool fleet.

Vehicle Type	FY 05 Rate	FY 06 Rate	Rental Rate Necessary at Current Utilization Rate (60%)
Sedan Compact	$10.05	$24.00	$30.00
Mini Passenger Van	13.65	30.00	37.50
Sedan Mid-Size	11.55	26.00	32.50

The increased rates of fiscal year 2006, although insufficient, should encourage agencies to better utilize vehicles in the future, only renting vehicles for the time they actually need them. In the past, users were unintentionally encouraged to keep vehicles longer than needed, due to the low user fees. This situation would actually result in fewer miles on daily use vehicles but would give an appearance of elevated utilization based on days rented.

Cost Recovery Depends on Better Vehicle Utilization

As mentioned, under the new rate structure, costs will only be recovered if the vehicles are used, on average, 75 percent of the time. Cost recovery appears improbable because utilization for Fiscal Year 05 was only 60 percent. Daily pool management wants to increase utilization and sees 75 percent as a reasonable goal, but they have no specific plans on how to achieve this goal.

Some factors may increase or decrease utilization, but there is no evidence that there will be a net change in utilization. For example, eliminating low-utilized vehicle types and changing from an hourly rental rate to a half-day or full-day rate may increase utilization, but any gain could be offset by users renting less often, due to higher rental rates. Figure 13 shows that Utah's utilization is similar to that of other western states.

Figure 13. Other States' Daily Pool Utilization. Utilization varies among other states' daily pools.

State	Daily Pool Utilization	Total Vehicles
Utah	**60%**	**123**
Arizona	62	170
Colorado	49	60
Idaho	no daily pool	0
Nevada	95 *	150
Washington	not available	119
Wyoming	not available	100
Montana	not available	250
Oregon	65	250
Average (less Utah)	**68%**	

***Nevada only tracks the utilization of sedans.**

Increasing Utah's utilization rates to the 68-percent average of these surveyed states would call for a reduction of about 15 vehicles from the existing pool of 123 vehicles. Utah would have to reduce even further to achieve the goal of 75-percent utilization.

DFO Should Have Kept Trucks and Cargo Vans in the Daily Pool

DFO recently eliminated nine special use vehicles (four trucks and five cargo vans) from the daily pool, leaving only one truck in the fleet. By eliminating these vehicles and renting from a private company when needed, the state will pay an estimated $17,000 more each year than the $27,000 they would have paid had they kept the state-owned vehicles. In fiscal year 2005, these two types of vehicles accounted for only 5 percent of the daily pool fleet.

Like the rest of the vehicles in the daily pool, trucks and cargo vans did not recover their costs in fiscal year 2005. With utilization values averaging about 45 percent, none of the vehicles would have likely recovered their costs in fiscal year 2006.

DFO should review the use of these specialty vehicles to determine the number of vehicles that would gain the highest utilization at the lowest possible cost. DFO should consider adding some of these vehicles back into the fleet to avoid the higher rental fees of the private provider. Such an action should increase the utilization of these unique vehicles, but DFO may also need further rate adjustments to recover costs.

Recommendations

1. We recommend that DFO, in the case of well-utilized daily pool vehicles used principally by one agency, assign the vehicles to that agency on a monthly lease basis.

2. We recommend that DFO continue to restructure its daily pool by considering the elimination or consolidation of sites that principally serve the host agency. Utilization, proximity to other sites, and operating cost should be part of this consideration.

3. We recommend that DFO annually assess its lease rate/cost recovery program to determine changes necessary to fully recover costs.

Agency Response

State of Utah
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GARY R. HERBERT
Lieutenant Governor

Department of Administrative Services
D'ARCY DIXON PIGNANELLI
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Deputy Director

October 4, 2005

Mr. John Schaff
Legislative Auditor General
Office of the Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, UT 84114-5315

RE: Draft report 2005-10 - "A Performance Audit of the Division of Fleet Operations."

Dear Mr. Schaff:

Please accept our thanks for the time you personally spent with us reviewing the findings and recommendations of your draft report – 2005-10, *A Performance Audit of the Division of Fleet Operations*. We commend the work of you and your team.

Thank you for acknowledging the important and valuable efforts of Fleet Operations (DFO) towards managing the state's motor vehicle fleet. These include recognition of cost saving initiatives, the value of data from the Fleet Information System, and improvements in vehicle utilization management and fleet monitoring.

In general, we accept and concur with many of the report recommendations and know they will assist us in improving fleet management. Overall, the report findings support our belief in the critical nature of both the data provided to agencies and their feedback. Effective fleet management is a cooperative effort and with the assistance of the Executive Director's Office, DFO will continue to refine and improve processes in order to elicit greater feedback, and ensure that critical issues are brought to the attention of the appropriate levels of management. It is our hope that process improvements will result in reports that are understandable, manageable, accurate, clearly identify critical issues, and will ultimately result in more effective fleet management.

DFO will continue its efforts to ensure that only mission critical vehicles remain in the state fleet. While lacking the authority to make operational and management decisions for other agencies, DFO will work to ensure greater agency accountability by (1) seeking the cooperation of its customers; and (2) continuing to actively manage the state fleet by creating strategic plans; setting policy requirements, including agency documentation for justification of take home vehicles; monitoring utilization; and providing information, assistance and solutions to agencies.

In terms of the motor pool, DFO will continue its efforts to implement cost saving measures and

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to right size the daily motor vehicle pool by closely monitoring utilization rates. When circumstance warrant, DFO will, as in the past, reduce the number of vehicles by either eliminating vehicles outright, or by negotiating a transfer of vehicles to agencies whose utilization of daily pool vehicles indicates a need for a monthly lease vehicle. Likewise, DFO will continue to monitor the need for multiple daily pool locations and consolidate when studies indicate that consolidation is warranted.

As Directors of Administrative Services and Fleet Operations, we appreciate the opportunity to comment on the draft report prior to its publication. Should you have any questions, please do not hesitate to contact us.

Sincerely,

D'Arcy Dixon Pignanelli
Executive Director
Department of Administrative Services

Kim Christensen
Deputy Director
Department of Administrative Services

Steven W. Saltzgiver
Director
Division of Fleet Operations