



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT

PERFORMANCE AUDIT  
OF

VEHICLE AND TRAVEL SERVICES

DEPARTMENT OF TECHNOLOGY, MANAGEMENT, AND BUDGET

October 2014



Doug A. Ringler, C.P.A., C.I.A.  
AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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### Performance Audit

**Report Number:**  
**071-0136-14**

### Vehicle and Travel Services

### Department of Technology, Management, and Budget

**Released:**  
**October 2014**

Vehicle and Travel Services (VTS) is part of the Office of Support Services, Department of Technology, Management, and Budget. VTS provides State departments and universities with vehicles and customer service solutions for their business needs. VTS's services include vehicle ordering, delivery, maintenance, fuel, radio installation, motor pools, and remarketing services. VTS leases its fleet from a private fleet management company.

Audit Objective			Audit Conclusion
Objective 1: To assess the effectiveness of VTS's efforts to ensure the efficient utilization of the State of Michigan's vehicle fleet.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
VTS had not implemented a process or a procedure to verify the State departments' compliance with administrative requirements for State-provided motor vehicle assignments ( <u>Finding 1</u> ).		X	Agrees

Audit Objective			Audit Conclusion
Objective 2: To assess the effectiveness of VTS's efforts to establish controls to ensure the accuracy and completeness of the data used in VTS's operations.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
VTS had not implemented effective processes and procedures to ensure the timely removal of access to motor fleet vehicles for separated employees, contractual service providers, and volunteers ( <u>Finding 2</u> ).		X	Agrees

Audit Objective			Audit Conclusion
Objective 3: To assess the effectiveness of VTS's efforts to monitor State fuel card purchases.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
VTS did not utilize available system restrictions to help prevent the inappropriate use of State fuel cards ( <u>Finding 3</u> ).		X	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>

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**Doug A. Ringler, C.P.A., C.I.A.**  
Auditor General

October 31, 2014

Mr. David B. Behen, Director  
Department of Technology, Management, and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Mr. Behen:

This is our report on the performance audit of Vehicle and Travel Services, Department of Technology, Management, and Budget.

This report contains our report summary; a description of agency; our audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of abbreviations and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler  
Auditor General



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## Description of Agency

Vehicle and Travel Services (VTS) is part of the Office of Support Services, Department of Technology, Management, and Budget (DTMB). VTS provides State departments and universities with vehicles and customer service solutions for their business needs. VTS's services include vehicle ordering, delivery, maintenance, fuel, radio installation, motor pools, and remarketing services. VTS leases its fleet from a private fleet management company that also provides contractor services, such as management of a fuel card and the Maintenance and Assistance Program (MAP) for every State vehicle. MAP is a network of maintenance vendors in Michigan, which includes independent shops and national accounts throughout Michigan. Vendors within MAP obtain preapproval from a MAP representative for repairs up to \$1,000 and from VTS for repairs over \$1,000 and bill the contractor directly for maintenance and repairs. MAP provides the benefit of a large volume discount for maintenance and repairs for all State-leased vehicles. As of July 2014, VTS had 8,863 vehicles, including 249 vehicles for universities. The State allows universities to order vehicles through the State's leasing package so that they can take advantage of the large volume discount. State departments and universities are responsible for all costs of the vehicles they lease.

VTS separates the State's fleet into two pools: the DTMB motor pool and the agency motor pool. VTS maintains the DTMB motor pool vehicles for State employees to use for business purposes, and these vehicles are not assigned to any one agency or employee. When a State employee uses a DTMB motor pool vehicle, VTS bills the responsible department an hourly rate or a fixed daily rate and a rate per mile for the actual miles driven. VTS assigns agency motor pool vehicles to a particular State department for that department's employees to use for business purposes. VTS bills these departments a predetermined monthly lease rate, an insurance rate, and a rate per mile for the actual miles driven.

There are three primary systems used in the operation of VTS:

1. The FleetView System maintains documentation of all vehicle activity from inception of the leased vehicle through its retirement, including all maintenance and miles driven. The FleetView System is owned by the fleet management company



and does not permit any direct input from State employees. Odometer readings are recorded electronically using the fuel cards, which are managed by the fleet management company. Entering odometer readings at the fuel pump is required to purchase fuel. Information from the FleetView System is manually uploaded monthly to the M4 System.

2. The FleetCommander System collects and manages departmental usage of motor pool vehicles. The FleetCommander System data is manually uploaded monthly to the M4 System.
3. The M4 System is the only complete repository of data on the composition, utilization, maintenance and repair history, and costs of the VTS-managed fleet. The M4 System interfaces monthly with the Michigan Administrative Information Network\* (MAIN) and supports the monthly billing of VTS customers.

VTS accounts for its operations in the Motor Transport Fund. This Fund was created by Act 260, P.A. 1947, and continued by Act 431, P.A. 1984, as amended (Sections 18.1213 - 18.1215 of the *Michigan Compiled Laws*). VTS had 34 employees as of October 3, 2014. For fiscal year 2012-13, VTS incurred total operating costs of \$65,731,484, as follows:

Vehicle lease cost	\$ 25,300,448
Fuel	20,702,356
Vehicle maintenance	13,682,912
Administrative	3,949,975
Insurance	1,676,565
Other	419,228
	\$ 65,731,484

\* See glossary at end of report for definition.

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit\* of Vehicle and Travel Services (VTS), Department of Technology, Management, and Budget (DTMB), had the following objectives:

1. To assess the effectiveness\* of VTS's efforts to ensure the efficient\* utilization of the State of Michigan's vehicle fleet.
2. To assess the effectiveness of VTS's efforts to establish controls to ensure the accuracy and completeness of the data used in VTS's operations.
3. To assess the effectiveness of VTS's efforts to monitor State fuel card purchases.

### Audit Scope

Our audit scope was to examine the program and other records of Vehicle and Travel Services. Our audit scope did not include approximately 3,700 vehicles owned and managed by the Michigan Department of Transportation. In addition, our audit scope did not include State employee travel expenses because the Department of Technology, Management, and Budget has delegated the authority for the approval of State employee travel expenses to individual State departments. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2010 through April 30, 2014.

\* See glossary at end of report for definition.

## Audit Methodology

We conducted a preliminary survey of VTS's operations to formulate a basis for defining the audit objectives and scope.

During our preliminary survey, we:

- Reviewed applicable laws, policies, and procedures.
- Held discussions with staff regarding their functions and responsibilities.
- Observed staff performing selected processing functions.
- Examined various records and reports reflecting the acquisition and disposal of State vehicles, maintenance and repair, annual inventory, and monitoring of departmental billings.
- Reviewed processes and procedures used to ensure that State departments and their employees complied with State laws, Standardized Travel Regulations, policies, and procedures.

To accomplish our first objective, we:

- Reviewed the processes and procedures related to vehicle management, including vehicle usage, maintenance, and inventory.
- Reviewed the contract between VTS and the State's contracted fleet management company to gain an understanding of the fleet vehicle services to be provided by the contractor.
- Identified all contractual service providers and volunteers with access to VTS's vehicle reservation system (FleetCommander System) and verified that the departments had signed driver agreements on file.
- Randomly selected users with access to VTS's vehicle inventory system (M4 System) to verify that all users were State employees.

- Gained an understanding of the annual vehicle inventory process and reviewed supporting documentation of vehicle inventories for fiscal years 2010-11, 2011-12, and 2012-13.
- Reviewed the motor pool vehicle turn-down reports documenting the number of instances in which State employees were turned down because a State motor pool vehicle was not available.

To accomplish our second objective, we:

- Reviewed internal control\* documentation of the FleetCommander and M4 Systems and tested the significant controls to ensure that VTS granted access to only appropriate users and that the data was complete and accurate.
- Observed the monthly reconciliation of transactions between the FleetView and M4 Systems performed to ensure the accuracy and completeness of the information included in each system for billing purposes.
- Reviewed VTS's controls over inventory items and randomly selected a sample of 33 inventory parts to determine if the records agreed with the parts in stock.
- Verified the odometer reading of 11 randomly selected vehicles included in the Lansing and Secondary Complex motor pools.

To accomplish our third objective, we:

- Reviewed and analyzed the Wheels, Inc. contract to identify transaction controls and limits available for use in the management of the State fuel cards.
- Made telephone and e-mail inquiries of a representative at Wheels, Inc. regarding the management and oversight of State fuel card usage.
- Reviewed documentation of VTS's follow-up of questionable uses of the State fuel cards.

\* See glossary at end of report for definition.

- Analyzed fuel card transactions from May 1, 2012 through April 30, 2014 to determine if the transactions were in compliance with State laws regarding credit card purchases.

We based our audit conclusions on our audit efforts as described in the preceding paragraphs and the resulting reportable conditions\* noted in the comments, findings, recommendations, and agency preliminary responses section. The reportable conditions are less severe than a material condition\* but represent opportunities for improvement.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve the operations of State government. Consequently, we prepare our performance audit reports on an exception basis. To the extent practical, we add balance to our audit reports by presenting noteworthy accomplishments for exemplary achievements identified during our audits.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 3 findings and 3 corresponding recommendations. DTMB's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DTMB to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of Vehicle and Travel Services, Department of Management and Budget (071-0136-07), in February 2009. Within the scope of this audit, we followed up 2 of the 3 prior audit recommendations. VTS complied with both of the prior audit recommendations.

\* See glossary at end of report for definition.

COMMENTS, FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## **EFFECTIVENESS OF EFFORTS TO ENSURE EFFICIENT UTILIZATION OF MICHIGAN'S VEHICLE FLEET**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of Vehicle Travel Services' (VTS's) efforts to ensure the efficient utilization of the State of Michigan's vehicle fleet.

**Audit Conclusion:** We concluded that VTS's efforts to ensure the efficient utilization of the State of Michigan's vehicle fleet were effective.

Factors leading to this conclusion included:

- VTS meeting industry standards for fleet utilization.
- VTS's ongoing review and follow-up of monthly exception reports for motor pool and State-leased vehicles using the FleetView System, including excessive miles, overdue oil change, and the zero mile report.
- VTS's ongoing review and follow-up of monthly exception reports for motor pool vehicles using the FleetCommander System, including daily, weekly, and quarterly motor pool vehicle turn-down reports and vehicle utilization reports.
- VTS's process to identify agency fleet underutilization and to discuss instances of identified underutilization with affected departments to develop strategies for improvement.
- VTS's process in place to help ensure the timely retirement or replacement of fleet vehicles.

**Noteworthy Accomplishments:** *Government Fleet Magazine* recognized VTS as one of the 50 best fleets for 2014 for its improved operational efficiency, significant savings, and increased fleet availability. For consideration of this acknowledgement, VTS submitted an application to the award program highlighting its scope of operations and client consulting model of service delivery.

## **FINDING**

### **1. Administrative Requirements for State-Provided Motor Vehicles**

VTS had not implemented a process or a procedure to verify the State departments' compliance with administrative requirements for State-provided motor vehicle assignments.

Department of Technology, Management, and Budget (DTMB) Administrative Guide procedure 0410.01 requires State departments to ensure that drivers comply with requirements for State-provided motor vehicle assignments, including the provision of appropriate care and maintenance for State vehicles, signed State of Michigan Motor Vehicle Driver Agreements, and the completion of mileage logs for all travel completed in State vehicles.

Our review disclosed:

- a. VTS did not ensure that all State vehicles received oil changes at the recommended intervals. VTS requires oil changes at 10,000-mile intervals or 1-year intervals if the mileage was less than 10,000 miles in 1 year. We reviewed the maintenance records for 33 randomly selected active vehicles. Our review disclosed 4 (12%) vehicles that exceeded 10,000 miles without an oil change and 8 (24%) vehicles that exceeded 1 year without an oil change. Failing to obtain vehicle oil changes at the recommended intervals can result in mechanical failure and significant repair costs.
- b. VTS did not ensure that State departments obtained signed driver agreements from all contractual service providers and volunteers who drive State vehicles. Our review disclosed that 16 (25%) of the 63 contractual service providers and volunteers did not have signed driver agreements.

The signed driver agreement provides assurance that drivers of State vehicles are aware of and have agreed to comply with the laws, rules and regulations, and policies and procedures that govern the use of State vehicles. All State employees are required to sign a driver agreement upon hire. By not ensuring that all drivers signed the required driver agreements, the State departments provided no assurance that all drivers of State vehicles were aware of and intended to comply with the laws, rules and regulations, and policies and procedures that govern the use of State vehicles.



- c. VTS did not ensure that all State departments required their employees to maintain mileage logs. We reviewed a minimum of one mileage log from each State department for 33 judgmentally selected vehicles to determine if the mileage log activity supported the odometer readings in the M4 System. Our review disclosed that State departments did not maintain mileage logs in 7 (21%) of the 33 instances. In the remaining 26 (79%) instances, the mileage logs supported the odometer readings in the M4 System.

Without mileage logs, there is no documentation to validate the mileage recorded in the M4 System that supports departmental usage billings and to support the vehicles' use for official State business.

VTS has delegated the responsibility of providing monitoring and oversight of employee compliance with Statewide laws, rules, and regulations for State vehicle usage and travel to each State department.

### **RECOMMENDATION**

We recommend that VTS implement a process or a procedure to verify the State departments' compliance with administrative requirements for State-provided motor vehicle assignments.

### **AGENCY PRELIMINARY RESPONSE**

DTMB agrees with the recommendation. VTS will continue to provide reports to departments of overdue oil changes, provide a maintenance schedule in each vehicle, and continue to promote the availability of the VTS garage at the Secondary Complex and the downtown Lansing motor pool for oil changes. In addition, VTS will institute a new policy requiring departmental validation of non-State employee drivers that includes a reminder of the need to maintain signed driver agreements on file. VTS will continue to do outreach and education on this requirement. Lastly, VTS will continue to do outreach to departments on the requirement to maintain daily mileage logs.

## **EFFECTIVENESS OF EFFORTS TO ESTABLISH CONTROLS TO ENSURE THE ACCURACY AND COMPLETENESS OF DATA**

### **COMMENT**

**Background:** The Michigan Administrative Information Network (MAIN) generates monthly departmental billings based upon the information collected and maintained by both the FleetView and FleetCommander Systems. The FleetView System records all State of Michigan vehicle transactions, including vehicle purchases; fuel purchases; and usage, maintenance, and disposal of the State of Michigan vehicle fleet.

**Audit Objective:** To assess the effectiveness of VTS's efforts to establish controls to ensure the accuracy and completeness of the data used in VTS's operations.

**Audit Conclusion:** **We concluded that VTS's efforts to establish controls to ensure the accuracy and completeness of the data used in VTS's operations were effective.**

Factors leading to this conclusion included:

- VTS established effective operating controls to ensure that only appropriate users were given access to systems; however, we noted that access was not removed for separated users in a timely manner.
- DTMB's Financial Services reconciles the FleetView and M4 Systems' data monthly and resolves any discrepancies before the preparation of monthly billings to help ensure accurate billings and identify inaccurate odometer readings.
- The FleetView System generates exception reports periodically and on demand that allow VTS consultants to work with department coordinators and Financial Services to correct identified data errors.

## **FINDING**

### **2. Fleet Vehicle Access**

VTS had not implemented effective processes and procedures to ensure the timely removal of access to motor fleet vehicles for separated employees, contractual service providers, and volunteers.

DTMB Administrative Guide procedure 0410.01 allows State and contractual service providers and volunteers to use motor fleet vehicles when conducting official State business. When employment, contractual duties, or volunteer activities end, these individuals can no longer utilize motor fleet vehicles.

We reviewed administrative access for 33 randomly selected separated employees, contractual service providers, and volunteers. Our review disclosed that authorization to access the FleetCommander System was not removed for 4 (12%) separated contract service providers and volunteers. After we brought this matter to VTS's attention, it removed the 4 individuals' authorization to access the FleetCommander System.

VTS indicated that the data it used to identify separated employees, contractual service providers, and volunteers was flawed and that it has corrected the problem.

## **RECOMMENDATION**

We recommend that VTS implement effective processes and procedures to ensure the timely removal of access to motor fleet vehicles for separated employees, contractual service providers, and volunteers.

## **AGENCY PRELIMINARY RESPONSE**

DTMB agrees with the recommendation. VTS informed us that it has already updated the data source used to identify employees and is in the process of placing an expiration date in the FleetCommander System driver profile. In addition, VTS will institute a new policy requiring departmental validation of non-State employee drivers.

## **EFFECTIVENESS OF EFFORTS TO MONITOR STATE FUEL CARD PURCHASES**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of VTS's efforts to monitor State fuel card purchases.

**Audit Conclusion:** We concluded that VTS's efforts to monitor State fuel card purchases were effective.

Factors leading to this conclusion included:

- VTS reviews and follows up a variety of daily and monthly exception reports with departments.
- VTS does not utilize available system restrictions to limit the type of products purchased with a fuel card.

### **FINDING**

#### **3. Fuel Card Purchases**

VTS did not utilize available system restrictions to help prevent the inappropriate use of State fuel cards. As a result, the State may have incurred costs for personal items or other unallowable purchases.

The DTMB State Vehicle Policy and Practice Guide states that the State-provided fuel credit cards are not to be used to purchase food or beverages, items for personal use, octane booster, fuel for other than the assigned vehicle, rental vehicles, car washes for other than on the assigned vehicle, oil for other than the assigned vehicle, windshield washer fluid for more than the assigned vehicle, overhead lighting for the Michigan Department of State Police vehicles, road maps, employee lockout of vehicle, towing, bulbs and repairs, oil change, maintenance, or gasoline treatment.

There were 55,262 nonfuel transactions totaling \$371,764 processed for the period May 1, 2012 through April 30, 2014. In our analysis of these transactions, we noted:

- 16,733 nonfuel transactions totaling \$138,745 were charged to product code "other." There is no way to determine if any of these "other" products included any of the products prohibited by policy.
- 464 nonfuel transactions totaling \$2,644 were charged to the product code "food." The DTMB State Vehicle Policy and Practice Guide states that State-provided fuel credit cards are not to be used to purchase food or beverages.
- 94 nonfuel transactions totaling \$3,065 were for oil changes. The DTMB State Vehicle Policy and Practice Guide states that State-provided fuel credit cards are not to be used to purchase oil changes for State vehicles. In addition, the State's fleet management contract requires the State to pay a 10% out-of-network fee for vehicle maintenance performed outside of the fleet management contract.

The Wheels, Inc. fleet management contract indicates that the credit card system could place restrictions to limit fuel card purchases to fuel only. VTS indicated that it had not placed more restrictions on its fuel cards because the restrictions could impact employees' access to fueling locations in certain geographic areas, as well as purchase of critical items, such as windshield solvent and oil.

### **RECOMMENDATION**

We recommend that VTS utilize available system restrictions to help prevent the inappropriate use of State fuel cards.

### **AGENCY PRELIMINARY RESPONSE**

DTMB agrees with the recommendation. VTS will decrease the limit on the "Services" category, provided such actions do not impact drivers by reducing their access to needed products and services. In addition, VTS will research whether further product restrictions can be imposed.

# GLOSSARY

## Glossary of Abbreviations and Terms

DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
efficient	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
MAP	Maintenance and Assistance Program.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.

performance audit                    An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition                A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

VTS                                        Vehicle and Travel Services.









