

PERFORMANCE AUDIT
OF

VEHICLE AND TRAVEL SERVICES

DEPARTMENT OF MANAGEMENT AND BUDGET

November 1999

EXECUTIVE DIGEST

VEHICLE AND TRAVEL SERVICES

INTRODUCTION

This report, issued in November 1999, contains the results of our performance audit* of Vehicle and Travel Services (VTS), Department of Management and Budget (DMB).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

VTS is part of the DMB Office of Support Services. VTS's mission* is to provide cost-effective, timely, and safe transportation for its customers. VTS is responsible for the acquisition, operation, maintenance, repair, and replacement of vehicles used by State agencies, colleges, and universities. VTS accounts for its operations in the Motor Transport Revolving Fund. In addition, VTS administers the State travel policies, procedures, and regulations.

As of December 31, 1998, VTS had 67 employees and over 11,000 vehicles. VTS's operating expenses for fiscal year 1997-98 were \$52,926,000.

* See glossary at end of report for definition.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To assess the cost-effectiveness of VTS's vehicle acquisition and disposal operations.

Conclusion: We concluded that VTS was generally cost-effective in its vehicle acquisition and disposal operations. However, we noted a reportable condition* related to the process for improving effectiveness (Finding 1).

Audit Objective: To assess the effectiveness of VTS's vehicle repair and maintenance operations.

Conclusion: We concluded that VTS was generally effective in its vehicle repair and maintenance operations. However, we noted reportable conditions related to the evaluation and improvement of the cost-effectiveness of vehicle repair and maintenance services and the monitoring of vehicles for preventative maintenance (Findings 2 and 3).

Audit Objective: To assess the effectiveness of VTS's travel services operations.

Conclusion: We concluded that VTS was generally effective in its travel services operations. However, we noted a reportable condition related to the monitoring of the State's travel services contract (Finding 4).

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of Vehicle and Travel Services. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United

* See glossary at end of report for definition.

States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit methodology included examination of VTS's records and activities covering the period October 1995 through December 1998. To accomplish our objectives, we identified and reviewed VTS's mission, organizational structure, and applicable statutes. Also, we made inquiries of VTS personnel and reviewed fleet management professional publications to help form effectiveness expectations. In addition, we reviewed contracts, examined records, observed activities, and conducted interviews to provide a basis for assessing the cost-effectiveness of VTS's vehicle acquisition and disposal operations, the effectiveness of VTS's vehicle repair and maintenance operations, and the effectiveness of VTS's travel services operations.

AGENCY RESPONSES

Our report includes 4 findings and 5 corresponding recommendations. VTS's preliminary response indicated that it has complied with our recommendations.

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Ms. Janet E. Phipps, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Ms. Phipps:

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

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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TABLE OF CONTENTS

VEHICLE AND TRAVEL SERVICES DEPARTMENT OF MANAGEMENT AND BUDGET

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	8
Audit Objectives, Scope, and Methodology and Agency Responses	9

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

Vehicle Acquisition and Disposal	11
1. Process for Improving Effectiveness	11
Vehicle Repair and Maintenance	13
2. Evaluation and Improvement of the Cost-Effectiveness of Vehicle Repair and Maintenance Services	14
3. Monitoring of Vehicles for Preventative Maintenance	16
Travel Services	17
4. Monitoring of the State's Travel Services Contract	18

GLOSSARY

Glossary of Acronyms and Terms	20
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Description of Agency

Vehicle and Travel Services (VTS) is part of the Office of Support Services, Department of Management and Budget. VTS's mission is to provide cost-effective, timely, and safe transportation for its customers. VTS is responsible for the acquisition, operation, maintenance, repair, and replacement of vehicles used by State agencies, colleges, and universities. VTS accounts for its operations in the Motor Transport Revolving 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*). In addition, VTS administers the State travel policies, procedures, and regulations.

As of December 31, 1998, VTS had 67 employees and over 11,000 vehicles. VTS's operating expenses for fiscal year 1997-98 were \$52,926,000.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

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

1. To assess the cost-effectiveness of VTS's vehicle acquisition and disposal operations.
2. To assess the effectiveness of VTS's vehicle repair and maintenance operations.
3. To assess the effectiveness of VTS's travel services operations.

Audit Scope

Our scope was to examine the program and other records of Vehicle and Travel Services. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our fieldwork was performed between July and December 1998. Our methodology included examination of VTS's records and activities covering the period October 1995 through December 1998.

To accomplish our objectives, we identified and reviewed VTS's mission, organizational structure, and applicable statutes. Also, we made inquiries of VTS personnel and reviewed fleet management professional publications to help form effectiveness expectations. In addition, we reviewed contracts, examined records, observed activities, and conducted interviews to provide a basis for assessing the cost-effectiveness of VTS's vehicle acquisition and disposal operations, the effectiveness of VTS's vehicle repair and maintenance operations, and the effectiveness of VTS's travel services operations.

Agency Responses

Our report includes 4 findings and 5 corresponding recommendations. VTS's preliminary response indicated that it has complied with our recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 require DMB to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

VEHICLE ACQUISITION AND DISPOSAL

COMMENT

Background: Vehicle and Travel Services' (VTS's) mission is to provide cost-effective, timely, and safe transportation for its customers. VTS is responsible for the acquisition, operation, maintenance, repair, and replacement of vehicles used by State agencies, colleges, and universities. In November 1990, VTS began to acquire vehicles through a lease agreement with a private fleet management contractor. That agreement included provisions for vehicle acquisition, financing, and disposal and related administrative services. The services provided by the private fleet management contractor have since expanded to also include vehicle repair and maintenance, fuel, and data management.

Audit Objective: To assess the cost-effectiveness of VTS's vehicle acquisition and disposal operations.

Conclusion: We concluded that VTS was generally cost-effective in its vehicle acquisition and disposal operations. However, we noted a reportable condition related to the process for improving effectiveness.

FINDING

1. Process for Improving Effectiveness

The VTS process for improving effectiveness did not ensure that vehicles were acquired and disposed of in the most cost-effective manner.

A process for evaluating and improving effectiveness consists of establishing goals* and objectives* related to the program's mission; identifying objective performance standards* and performance measures*; implementing a process for evaluating results; benchmarking* results with other entities; and adjusting the

* See glossary at end of report for definition.

program to improve its effectiveness. VTS has developed program goals and objectives and performance measures for the acquisition and disposal of vehicles. However, our review of VTS's evaluation process for vehicle acquisition and disposal operations noted:

- a. VTS did not document its evaluation of disposal options when it determined the number of vehicles to send to State surplus auctions or to dealer wholesale auctions. During our audit period, VTS primarily disposed of vehicles at dealer wholesale auctions. A small percentage of vehicles were disposed of at State surplus auctions open to the general public. VTS informally evaluated when and which vehicles to send to the two types of auctions based on factors such as timing of auction dates, administrative costs, and market conditions. To assess its cost-effectiveness, VTS compared net sale proceeds from both auction options to industry standards for wholesale auction results, which are published in the Automotive Market Report (AMR). Based on this performance measure, the dealer wholesale auctions generated proceeds of 103% of AMR standards and the State surplus auctions generated proceeds that were 111% of AMR standards from September 1997 through August 1998. Sale proceeds data for 10 vehicles disclosed that identical model and year vehicles, adjusted for mileage, sold for greater amounts at State surplus auctions.

A documented evaluation could help ensure that VTS determines the optimal number of vehicles to send to State surplus auctions and dealer wholesale auctions to maximize sales proceeds and that all pertinent factors are considered in the evaluation process.

- b. VTS did not have procedures to benchmark its vehicle acquisition costs with a sufficient number of other governmental entities to ensure that VTS was obtaining the best prices possible for vehicles. VTS compared the price it paid for vehicles to the dealer invoice price and to a Statewide contract price negotiated by the Office of Purchasing, Department of Management and Budget. Based on this comparison, VTS concluded that it was cost-effective in its acquisition practices and was acquiring vehicles at approximately 12% below dealer invoice cost. However, VTS should benchmark its cost per vehicle to several other contract prices paid by government entities to

determine if others are obtaining vehicles at a lower price. Our review of an audit issued in 1991 by another state audit organization indicated that 6 of 10 government agencies were able to acquire vehicles at more than 12% below dealer invoice. In addition, VTS should make further inquiries to identify the best practices used by other entities that may be adopted by the State to improve the cost-effectiveness of vehicle acquisitions.

RECOMMENDATION

We recommend that VTS strengthen its process for improving effectiveness to help ensure that vehicles are acquired and disposed of in the most cost-effective manner.

AGENCY PRELIMINARY RESPONSE

VTS informed us that it has complied with a process change, but VTS took exception to the comparison of 1991 data to current vehicle acquisition prices. VTS believes that the 1991 data comparison is not relevant because manufacturer prices and pricing philosophies have changed since then. Specifically, governmental incentives have been reduced nationwide since 1991. VTS informed us that, if it were comparing the 1991 benchmark of 12% to the State's 1991 mid-size vehicle, the State secured 17% below dealer invoice. VTS believes that it uses sophisticated evaluation and benchmarking techniques for determining cost-effectiveness of acquisition and disposal operations of government fleet vehicles. In addition to the current analysis, VTS will develop and document further comparisons in an annual summary.

VEHICLE REPAIR AND MAINTENANCE

COMMENT

Background: VTS is responsible for repairing and maintaining the State's vehicles. VTS's vehicle repair and maintenance expense for fiscal year 1997-98 was \$13,030,204, which represents 25% of total operating expenses. Vehicle repair and maintenance is performed either internally by VTS's two garages or externally by private sector garages as determined by VTS's private fleet management contractor. VTS's contractor provides fleet management services (vehicle acquisition, financing,

and disposal) and services of maintenance, collision, and fuel management under the Maintenance Assistance Program (i.e., 24-hour-a-day customer assistance, assistance in arranging towing, and access to a network of maintenance vendors).

Audit Objective: To assess the effectiveness of VTS's vehicle repair and maintenance operations.

Conclusion: We concluded that VTS was generally effective in its vehicle repair and maintenance operations. However, we noted reportable conditions related to the evaluation and improvement of the cost-effectiveness of vehicle repair and maintenance services and the monitoring of vehicles for preventative maintenance.

FINDING

2. Evaluation and Improvement of the Cost-Effectiveness of Vehicle Repair and Maintenance Services

VTS had not developed a complete process to evaluate the cost-effectiveness of vehicle repair and maintenance services.

One of VTS's primary goals was to provide cost-effective vehicle repair and maintenance services. VTS provides repairs and maintenance services internally at its two garages and externally at private sector garages selected either by VTS or through the Maintenance Assistance Program component of VTS's fleet management contract. Our review of VTS's evaluation of repair and maintenance costs noted:

- a. VTS had not evaluated the private fleet management contractor's cost-effectiveness in managing the vehicle repair and maintenance services received by the State.

To improve overall repair and maintenance cost-effectiveness and customer service, VTS contracted with a private fleet management vendor to provide 24-hour-a-day customer assistance in identifying convenient and cost-effective private sector repair and maintenance providers, payment processing to the private sector providers, and collection of repair and maintenance data for each vehicle. The private fleet management contractor indicated in its bid proposal that it could substantially reduce vehicle repair

costs and minimize downtime of drivers. VTS has evaluated the customer service improvements and the savings associated with the contractor providing administrative services. However, VTS did not complete a formal evaluation of the costs of services provided by VTS's garages, the private sector garages, and the contractor's network to determine that the contractor is effective in substantially reducing vehicle maintenance costs.

Of the total cost of repairs and maintenance services (\$13,030,204 for fiscal year 1997-98), the actual repair and maintenance costs accounted for 91%, while the administrative costs represented 9%. VTS could obtain cost data from its private fleet management contractor, its information system, and comparable industry standards to evaluate the cost-effectiveness of maintenance services managed by the contractor.

- b. VTS did not document its evaluations of detailed repair and maintenance service cost comparisons of specific services between its garage operations and the private sector options. In addition, VTS did not have a computerized data system that could accurately collect this information to allow it to perform a detailed evaluation. VTS indicated that it informally evaluates the costs and benefits of providing various services at its internal garage operations and considers factors such as the private sector's availability to provide services, customer convenience, garage staffing levels, equipment, and facility fixed and variable costs. Documenting the evaluation would help ensure that all pertinent factors are considered in determining if specific services are more cost-effectively performed by VTS garages or by the private sector.

RECOMMENDATION

We recommend that VTS develop a complete process to evaluate the cost-effectiveness of vehicle repair and maintenance services.

AGENCY PRELIMINARY RESPONSE

VTS informed us that it has complied and that it evaluates maintenance service costs between its garage operations and the private sector options. On an annual basis, VTS will prepare a formal report that describes the top five American Trucking Association repair codes and summarizes costs to those codes by VTS garage and private sector options.

FINDING

3. Monitoring of Vehicles for Preventative Maintenance

VTS did not have procedures or accurate reports to monitor preventative maintenance of the State's vehicles. In addition, VTS did not require the private fleet management contractor to maintain accurate records of vehicle maintenance.

The State Vehicle Policy and Practice Guide requires drivers to ensure that vehicles receive oil changes every 5,000 miles. A copy of the Guide and the schedule for oil changes were provided with every State vehicle. VTS's main method of ensuring compliance with scheduled preventative maintenance is directed at providing driver education and working with departments.

The lease agreement with the private fleet management contractor allows VTS to receive reports of oil changes for each vehicle from the contractor. However, the contractor's oil change reports did not provide accurate data to allow VTS to determine that oil changes had occurred at scheduled times. The preventative maintenance exception reports indicated that over 40% of the vehicles were overdue for an oil change and that many vehicles had not received an oil change in over one million miles (*sic**). VTS informed us that these reports were not routinely produced and not utilized because of the vehicle mileage inaccuracies. In addition, oil changes performed at VTS's garages were not included in the private fleet management contractor's information system.

VTS's vehicle repair reports indicated that it has not experienced a significant amount of damage to its vehicles even though preventative maintenance may not have been done. However, industry standards state that failure to perform preventative maintenance at prescribed intervals not only increases the risk of engine failures (resulting in costly repairs), but may also result in voiding manufacturer warranties. Conversely, if vehicles receive preventative maintenance too often, unnecessary costs are incurred.

* See glossary at end of report for definition.

RECOMMENDATIONS

We recommend that VTS develop procedures and accurate reports to monitor preventative maintenance of the State's vehicles.

We also recommend that VTS require the private fleet management contractor to maintain accurate records of vehicle maintenance.

AGENCY PRELIMINARY RESPONSE

VTS informed us that it has complied and that procedures and reports are in place to monitor fleet vehicle maintenance.

TRAVEL SERVICES

COMMENT

Background: In accordance with Executive Order 1996-5, the Civil Service Commission transferred the function of administering the *Standardized Travel Regulations* and associated rate schedules for the reimbursement of travel expenses to the Department of Management and Budget. The Civil Service Commission retained its authority to approve changes to the *Standardized Travel Regulations*, the travel reimbursement rates, and the process used to establish the travel reimbursement rates for classified State employees. Statewide air, lodging, and car rental expenditures exceeded \$10,688,000 in fiscal year 1997-98.

VTS administers contracts with air carriers and the State's travel services contractor. State travelers are obligated to utilize contracted air carriers unless the use on a noncontracted carrier results in a lower total trip cost or the contracted carriers' space and/or flight schedules are not available in time to accomplish the purpose of the travel. Requiring State travelers to utilize the State's travel services contractor for air travel reservations has assisted VTS in identifying State air travel needs and in negotiating favorable fares.

In April 1998, VTS started using the travel services contractor to assist employees in booking overnight hotel accommodations and to approve hotel rates that exceed the \$60 per night limit. The contractor utilizes VTS's hotel rate approval guidelines and

works with the travelers to satisfy the travelers' needs at the best available rate. VTS established two primary goals for the new hotel rate exception approval process. The first was to provide State travelers with a more timely and efficient exception approval process by using the contractor to locate acceptable lodging. The second was to decrease VTS administrative costs by reducing the number of exception approvals processed by VTS staff.

Audit Objective: To assess the effectiveness of VTS's travel services operations.

Conclusion: We concluded that VTS was generally effective in its travel services operations. However, we noted a reportable condition related to the monitoring of the State's travel services contract.

FINDING

4. Monitoring of the State's Travel Services Contract

VTS did not document its monitoring of contract requirements with the State's travel services contractor.

The State's travel services contract identified three objectives: to provide overall cost savings to the State; to improve customer service; and to provide for data collection of costs and activity. The contract required VTS to conduct a performance review, at least annually, to evaluate the contractor in the areas of providing the most economical air fares, the timeliness of service to State employees, and the accuracy and timeliness of information reports. Our review of VTS noted:

- a. VTS did not document a formal performance review of the travel services contractor. VTS indicated that it had informally evaluated the contractor on an ongoing basis through its regular contact with the contractor and the State employees using the contractor. Documenting performance reviews of the contractor would help ensure that VTS consistently monitors compliance with all contract requirements. Because these reviews were not documented, we could not determine the frequency or completeness of such evaluations.
- b. VTS did not have procedures to determine if the travel services contractor was in compliance with VTS's hotel rate approval guidelines to reserve hotel

lodgings at the best available rate. The contractor provided us with one month's data that indicated that 168 exceptions were approved for 344 nights, with hotel room rates ranging from \$61 to \$165 and a median cost of \$89 per night. VTS should periodically review data from the contractor to determine if changes to the rate exception approval process are necessary to improve the overall cost-effectiveness for total State travel costs.

Documentation of VTS's evaluation and monitoring of its travel services contractor would help ensure that VTS consistently monitors compliance with all contract requirements.

RECOMMENDATION

We recommend that VTS document its monitoring of contract requirements with the State's travel services contractor.

AGENCY PRELIMINARY RESPONSE

VTS informed us that it has complied and that a formal annual performance review of the travel services contractor, based on contract requirement, will be conducted and documented.

Glossary of Acronyms and Terms

AMR	Automotive Market Report.
benchmarking	A process to evaluate a standard of excellence, achievement, etc., against which similar things may be measured or judged.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
mission	The agency's main purpose or the reason the agency was established.
objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective actions.

performance measures	Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance measures are typically used to assess achievement of goals and/or objectives.
performance standards	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
<i>sic</i>	A Latin word indicating that a word, phrase, passage, etc., that may appear strange or incorrect has been intentionally written or quoted verbatim. In this report, <i>sic</i> indicates that "over one million miles" was intentionally written.
VTS	Vehicle and Travel Services.