LA20-14

STATE OF NEVADA

Performance Audit

Department of Administration
Fleet Services Division

2020

Legislative Auditor
Carson City, Nevada

Audit Highlights

Highlights of performance audit report on the Fleet Services Division issued on February 18, 2020.

Legislative Auditor report # LA20-14.

Background

The Fleet Services Division (Division) was established in 1961 to ensure economical utilization of state-owned vehicles, eliminate the unauthorized use of state-owned vehicles, provide a ready means of transportation for state employees and officers on state business, reduce the need for state employees to use private cars on official state business, and provide a central administrative facility for the maintenance, care and operation of selected state-owned vehicles.

Services to state agencies include a short-term rental program, long-term assigned vehicles, car wash and detail, vehicle repairs, and roadside assistance. Short-term vehicle rentals, billed at a daily rate plus mileage, are available to state agencies for up to 30 days. State agencies may lease vehicles on a long-term basis for a monthly base fee plus mileage. The Division operated a fleet of 1,126 vehicles as of June 30, 2019, consisting of 1,048 on long-term assignment to state agencies, and 78 short-term rentals.

For fiscal year 2019, the Division was authorized for 16 positions, with locations in Carson City, Las Vegas, and Reno.

Purpose of Audit

The purpose of the audit was to determine if controls were adequate to ensure the economical utilization of the Division's vehicles and to evaluate the controls over fuel and procurement cards. Specifically, our work included a review of vehicle utilization during calendar year 2018, and fuel and procurement card transactions from July 1, 2018, through April 30, 2019.

Audit Recommendations

This audit report contains five recommendations to help ensure the economical utilization of fleet vehicles, and two recommendations to strengthen controls over fuel cards.

The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on May 12, 2020. In addition, the 6-month report on the status of audit recommendations is due on November 12, 2020.

Fleet Services Division

Department of Administration

Summary

Weak controls hinder the Division from ensuring the economical utilization of its fleet. Vehicles on long-term assignments in calendar year 2018 were frequently driven less than the required annual minimum miles for fleet vehicles. When agencies underutilize assigned vehicles, the average cost per mile becomes excessive. Further, many vehicles had untimely preventive maintenance, potentially compromising vehicle performance and safety. Deficiencies in the Division's vehicle utilization monitoring and related processes are similar to the findings in our 2010 audit.

While the Division's controls over procurement cards were adequate, monitoring of fuel card purchases to reduce the risk of improper charges was not sustained after our prior audit in 2010. Testing of monthly fuel card purchases for 60 vehicles showed 13% had unusually low miles per gallon (mpg) ratios. In addition, the Division did not maintain accurate listings of outstanding fuel cards. Fuel purchases for fiscal year 2019 were nearly $1.4 million.

Key Findings

Many of the vehicles on long-term assignment to agencies did not meet the State's minimum use requirements for miles driven. Specifically, for calendar year 2018, 168 vehicles or approximately 26% of the nonemergency vehicles did not meet minimum mileage requirements. While some vehicles may have met usage requirements in terms of days driven, the data on days driven was not always obtained or accurate. (page 5)

The Division does not actively monitor long-term vehicle assignments for underutilization. Staff informally notify the Administrator of low-use vehicles, in terms of miles driven, but reports of low usage vehicles are not prepared and exception information is not communicated to the user agencies or to the Department of Administration. (page 8)

Agencies pay considerably more per mile for vehicle rentals when their long-term vehicles are underutilized. For the 10 most underutilized vehicles in calendar year 2018, agencies' rental costs ranged from $4.44 to a high of $71.71 per mile. (page 9)

Fleet Services does not have complete usage information on its long-term vehicles. First, the Division does not have the necessary data and does not calculate the percentage of days the vehicles were used, an alternative to the mileage requirement. Second, the Division does not track information on which user group, pooled or individual, its long-term vehicles are assigned. Without knowing the user group, the Division cannot accurately determine underutilization. (page 10)

Preventive maintenance on Division vehicles was not always performed timely. We noted 10 of 25 (40%) vehicles we tested did not have timely required services, such as an oil change, lube, and vehicle inspection. This is a repeat audit finding from our 2010 audit, which reported a 30% exception rate for untimely preventive maintenance. (page 11)

The Division does not have adequate monitoring of fuel card usage for its vehicles. Testing of fuel transactions for 60 vehicles revealed 8 (13%) instances of low mpg ratios. Specifically, each vehicle's mpg fell below the Environmental Protection Agency's range for city and highway driving by more than 2 mpg. (page 14)

The Division did not maintain an accurate listing of outstanding fuel cards. The Division's listings of fuel cards for its two fuel vendors dated May 2019, showed 68 more fuel cards than anticipated. (page 16)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Administration, Fleet Services Division. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes five recommendations to help ensure the economical utilization of fleet vehicles, and two recommendations to strengthen controls over fuel cards. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

Daniel L. Crossman, CPA
Legislative Auditor

February 3, 2020
Carson City, Nevada

Fleet Services Division
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Introduction

Background

The Fleet Services Division (Division) was established in 1961 for the following purposes:

- To ensure economical utilization of state-owned vehicles.
- To eliminate the unauthorized use of state-owned vehicles.
- To provide a ready means of transportation for state employees and officers on state business.
- To reduce the need for state employees to use private cars on official state business.
- To provide a central administrative facility for the maintenance, care, and operation of selected state-owned vehicles.

The Division's mission is to provide safe, efficient, environmentally friendly, and cost-effective transportation solutions to state employees. Services to state agencies include a short-term rental program, long-term assigned vehicles, car wash and detail, vehicle repairs, and roadside assistance. Short-term vehicle rentals, billed at a daily rate plus mileage, are available to state agencies for up to 30 days. State agencies may lease vehicles on a long-term basis for a monthly base fee plus mileage. Exhibit 1 shows the Division operated a fleet of 1,126 vehicles as of June 30, 2019, consisting of 1,048 on long-term assignment to state agencies and 78 short-term rentals.

Distribution of Fleet Services Vehicles June 30, 2019 **Exhibit 1**

Agency	Count
Department of Health and Human Services	384
Division of Parole and Probation	247
Other State Agencies[1]	181
Department of Motor Vehicles	75
Gaming Control Board	67
Office of the Attorney General	51
Department of Business and Industry	43
Total Long-Term Vehicles	**1,048**
Add: Short-Term Vehicles	78
Total Vehicles	**1,126**

Source: Auditor prepared from Division's fiscal year-end inventory report.

[1] Other includes various Executive Branch agencies, the Legislative Counsel Bureau, Judicial Branch agencies, the Nevada System of Higher Education, and several licensing boards.

Budget and Staffing

The Division has two budget accounts, an operating account and an account for vehicle purchases. Fleet operations are primarily funded by vehicle rental fees. For fiscal year 2019, vehicle purchases exceeded $1.1 million. The Division was authorized for 16 positions in fiscal year 2019, with locations in Carson City, Las Vegas, and Reno.

Exhibit 2 shows revenues and expenditures for Division operations for fiscal year 2019.

Fleet Services Operating Account
Revenues and Expenditures
Fiscal Year 2019

Exhibit 2

Revenues	**Amount**
Beginning Cash	$ 721,000
Vehicle Rental Income	4,594,673
Repair Service Charge[(1)]	70,816
Insurance Recoveries	24,086
Other[(2)]	4,779
Total Revenues	**$5,415,354**
Expenditures	
Vehicle Operations	$2,530,912
Personnel	1,068,561
Capital Finance Transfer[(3)]	731,949
State Cost Allocations	371,287
Operating and Travel	218,422
Total Expenditures	**$4,921,131**
Balance Forward to 2020	**$ 494,223**

Source: State accounting system.

(1) Revenues for maintenance and repair of non-Fleet Services vehicles.

(2) Includes revenues and refunds attributable to prior year.

(3) Transfer to Public Works Board for the Grant Sawyer Fleet Services Maintenance Facility.

As noted above, the fiscal year 2019 vehicle rental income of $4.6 million comprised 85% of the Division's operating revenues. During the 2019 Session, the State of Nevada Legislature approved an increase to rental rates for the 2020–2021 Biennium. The Department of Administration explained, in the previous biennium, rates had been artificially lowered to spend large reserves that had accumulated. Exhibit 3 shows rental rate comparisons for fiscal years 2019 through 2021.

Fleet Services Rental Rates
Fiscal Years 2019–2021

Exhibit 3

	Per Month			Per Day		Per Mile	
Vehicle Type	**2019**	**2020**	**2021**	**2019**	**2020–2021**	**2019**	**2020–2021**
Compact	$188	$220	$241	$26	$37	$0.13	$0.19
Intermediate	$198	$243	$267	$27	$39	$0.13	$0.20
Premium	$224	$376	$413	$28	$41	$0.16	$0.21
Specialty(1)	$243	$451	$497	$29	$43	$0.18	$0.22
Law Enforcement(2)	$ -	$408	$449	$ -	$ -	$ -	$0.21

Source: Division records.

(1) Specialty vehicles perform a specific function or have specialty equipment installed such as truck-mounted toolboxes, cranes, hoists, or telecommunications equipment.

(2) Law Enforcement is a new category for the 2020–2021 Biennium. It was previously billed at the intermediate or premium rates, depending upon the vehicle type.

Scope and Objectives

The scope of our audit included a review of the Division's fleet management activities. Specifically, our work included a review of vehicle utilization during calendar year 2018, and fuel and procurement card transactions from July 1, 2018, through April 30, 2019. Our audit objectives were to:

- Determine whether controls were adequate to ensure the economical utilization of the Division's vehicles.
- Evaluate the controls over fuel and procurement cards.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Weak Controls Hinder Economical Utilization of Vehicles

Weak controls hinder the Fleet Services Division (Division) from ensuring the economical utilization of its fleet. Vehicles on long-term assignments in calendar year 2018 were frequently driven less than the required annual minimum miles for fleet vehicles. When agencies underutilize assigned vehicles, the average cost per mile becomes excessive. Further, many vehicles had untimely preventive maintenance, potentially compromising vehicle performance and safety. Deficiencies in the Division's vehicle utilization monitoring and related processes are similar to the findings in our 2010 audit.

Inadequate Monitoring of Underutilized Vehicles

Many of the vehicles on long-term assignment to agencies did not meet the State's minimum use requirements for miles driven. Specifically, for calendar year 2018, 168 vehicles or approximately 26% of nonemergency vehicles did not meet minimum mileage requirements. While some vehicles may have met usage requirements in terms of days driven, the data on days driven was not always obtained or accurate. Exhibit 4 shows the number of vehicles in calendar year 2018 that were driven less than the minimum number of miles specified in the State Administrative Manual (SAM).

Long-Term Assigned Vehicles Driven Less Than the Minimum Required Miles Calendar Year 2018 **Exhibit 4**

Miles Driven	Number of Vehicles	Percent of Total
0 to 1,199	22	3%
1,200 to 2,399	39	6%
2,400 to 3,599	63	10%
3,600 to 4,799	44	7%
Subtotal 0 to 4,799(1)	**168**	**26%**
4,800 to 5,999	81	13%
6,000 to 7,199	70	11%
7,200 to 8,399	52	8%
Subtotal 4,800 to 8,399(1)	**203**	**32%**
Total Under 8,400	**371**	**58%**
Over 8,400	265	42%
Total	**636**	**100%**

Source: Auditor prepared from Division records.

Note: Excludes 276 law enforcement vehicles exempt from the minimum usage requirements and 224 vehicles in service less than 12 months.

(1) Subtotals show number of vehicles under 4,800 and under 8,400 annual miles per the minimum mileage requirements. However, the actual number of vehicles that were underutilized according to the mileage thresholds is not known, as the Division did not know which long-term vehicles were assigned to individuals or to multiple drivers or the number of days each vehicle was used.

As shown above, 58% of the vehicles on long-term assignment appear to have been underutilized. However, it is possible that some of these vehicles could have met utilization requirements based on the user group or upon an alternate criteria. As explained further in this report, some vehicles may have met usage requirements based on the number of days driven; however, the data on days driven was not always obtained or accurate.

The State's policy allows agencies to request an exemption from the minimum use requirements if there is a mission-critical need for a vehicle. Requests for exemption from the minimum use requirements must be approved by the Clerk of the Board of Examiners, and agencies must maintain documentation to support any exemptions granted.

We tested 39 underutilized vehicles for compliance with the State's minimum mileage requirements and for accuracy of the calendar year 2018 miles driven. Generally, as explained further in Exhibit 6 on page 8, agencies must annually drive an assigned vehicle at least 8,400 miles if used by multiple drivers, or 4,800 miles if assigned to an individual driver. For all 39 vehicles tested, the Division had no record of which mileage requirement was applicable (8,400 or 4,800 miles), and there was no documentation that any of the agencies had either requested, or been granted, an exemption from the minimum mileage requirements.

Exhibit 5 provides monthly mileage information for 5 examples of vehicles that were driven between 35 and 999 miles in calendar year 2018. For these five vehicles, mileage was consistently low, and the vehicles had months with no miles driven.

Examples of Vehicles With Low Annual Mileage Calendar Year 2018 **Exhibit 5**

Vehicle Description	Lowest to Highest Miles Driven Per Month	Total Miles Driven Calendar Year 2018
2014 Ford Focus	0-25	35
2013 Toyota Corolla	0-67	428
2015 Toyota Corolla	0-221	581
2018 Chevrolet Malibu(1)	0-117	918
2013 Toyota Corolla	0-256	999

Source: Division records.
(1) New vehicle assigned to an agency during January 2018.

Similar problems were reported in our 2010 audit. The previous audit found 162 of 736 (22%) agency assigned vehicles were driven less than 6,000 miles during 2009. The vehicle utilization requirements in place at that time stated agencies should drive their assigned vehicle 500 miles per month, or must use the vehicle 18 days in the month. In comparison, for calendar year 2018, 249 of 636 (39%) vehicles on long-term assignment were driven less than 6,000 miles.

In certain instances, vehicles may be necessary for state activities but limited in use. For example, the most underutilized vehicle, driven 35 miles in calendar year 2018, was assigned to an agency's office that serves the rural community in Battle Mountain with one employee. The agency manager informed us the vehicle is needed for the occasional transport of clients, which is considered a mission-critical need; however, as employees may not use their personal vehicles to transport clients. Although the Division's policy specifies a process for obtaining an exemption from the minimum use requirements in such cases, the Division did not require, and the agency did not request, an exemption. Furthermore, the Division indicated there are no records on file that any agencies have requested exemptions from the vehicle utilization requirements.

Vehicle Utilization Requirements Not Adequately Communicated

Agencies with long-term vehicle rentals are not formally notified of the vehicle utilization requirements. Long-term vehicle assignment forms include a check box for Division staff to indicate Fleet Services' procedures are reviewed with the customer. Staff told us the information presented covers other topics such as use of fuel cards, but not vehicle utilization requirements.

The State's requirements, which help ensure economical vehicle use, are specified in the State Administrative Manual (SAM) Section 1324. This policy requires agencies to assign their long-term vehicles to specific user groups. Exhibit 6 shows the required minimum usage for the two most common user groups.

Required Minimum Usage for Administrative Vehicles **Exhibit 6**

User Group	Description	Minimum Usage
Group 1 Pooled Administrative Vehicles	Vehicles used by multiple drivers.	8,400 annual miles, or used 199 days (80% of the available time.)
Group 2 Individually Assigned Administrative Vehicles	Vehicles assigned to an individual driver or function.	4,800 annual miles, or used 164 days (75% of the available time.)

Source: SAM Section 1324.

Vehicle Utilization Requirements Not Enforced

The Division does not actively monitor long-term vehicle assignments for underutilization. Staff informally notify the Administrator of low-use vehicles, in terms of miles driven, but reports of low usage vehicles are not prepared and exception information is not communicated to the user agencies or to the Department of Administration.

The Division was unable to provide records of ever reassigning low-use vehicles, or taking other enforcement action for agencies with low-use vehicles. At our request, management located administrative procedures for vehicle utilization review, which were developed after our prior audit. The procedures, approved by the prior administrator in December 2011, provide for monthly review of utilization, working with agencies with low-use vehicles, and reallocating underutilized vehicles. However, the procedures were not successfully sustained, as the Division discontinued monthly reviews after April 2014, and the reviews prior to that were limited in scope with no documented corrective action. In addition, during our previous audit in 2010, SAM Section 1407 had provisions for review of vehicle utilization with possible reassignment of low-use vehicles. However, the policy has since been revised to eliminate these provisions.

Agencies Underutilizing Vehicles Pay a Higher Cost Per Mile
Agencies pay considerably more per mile for vehicle rentals when long-term vehicles are underutilized. As shown in Exhibit 7, for the 10 most underutilized vehicles in calendar year 2018, agencies' rental costs ranged from $4.44 to $71.71. In comparison, the General Services Administration reimbursement rate for personal vehicle use has been set near $0.50 per mile for several years.

10 Most Underutilized Vehicle Rental Costs Calendar Year 2018 **Exhibit 7**

Vehicle Description	Type	Miles Driven	Vehicle Rental Payments	Rental Cost Per Mile
2014 Ford Focus	Compact	35	$2,510	$71.71
2004 Chevy Cavalier	Compact	84	2,515	29.94
1996 Ford F250, 2WD	Intermediate	244	2,699	11.06
2008 Ford F350	Premium	378	3,082	8.15
1998 Ford F250, 4WD	Premium	440	3,090	7.02
2002 Chevy Cavalier	Compact	416	2,556	6.14
2013 Toyota Corolla	Compact	428	2,558	5.98
2004 Chevy Cavalier	Compact	439	2,558	5.83
2006 Ford Cargo Van	Premium	672	3,124	4.65
2015 Toyota Corolla	Compact	581	$2,580	$ 4.44

Source: Auditor prepared from Division records.

As noted in our previous audit, agencies can reduce their transportation costs by eliminating low-use vehicles and either shifting the necessary miles to other vehicles or reimbursing employees for business use of their personal vehicles, when this option is available. Exhibit 8 shows the breakeven mileage points for the three common vehicle types for fiscal year 2019. These breakeven points are based on an agency's vehicle rental costs being equivalent to the cost of reimbursing employee mileage.

Long-Term Rental Breakeven Mileage Points Fiscal Year 2019 **Exhibit 8**

Vehicle Type	Mileage Breakeven Point	Agency Vehicle Rental Cost
Compact	5,223	$2,938
Intermediate	5,497	$3,092
Premium	6,684	$3,760

Source: Auditor analysis based upon fiscal year 2019 long-term vehicle rental rates and the State's mileage reimbursement rates.

Agencies' vehicle use is most economical when they drive an assigned vehicle more than the mileage breakeven point. If an agency's planned transportation needs for a compact vehicle were less than 5,223 miles in fiscal year 2019, it would have been more economical to reimburse employee mileage at the state-approved rate instead of paying monthly rent to the Division.

The Division can help agencies to make better decisions regarding the use of fleet vehicles by periodically communicating usage data and the State's requirements regarding utilization.

Data to Calculate Vehicle Utilization Not Properly Collected

Fleet Services does not have complete usage information on its long-term vehicles. First, the Division does not have the necessary data and does not calculate the percentage of days the vehicles were used, an alternative to the mileage requirement. As reported in Exhibit 6 on page 8, the days driven is needed for comparison to the required minimum usage of either 199 days or 164 days, depending on the vehicle user group classification. However, the Division tracks only monthly mileage totals, not days used.

Currently, the monthly form agencies submit to report their vehicle activity requests the number of days the vehicle was used in the month. However, for 22 of 39 (56%) vehicles we tested, agencies either did not report this information or reported obviously incorrect information. For instance, one agency reported using the vehicle 365 days in the year but driving it only 1,000 miles annually.

Second, the Division does not track information on which user group, pooled or individual, its long-term vehicles are assigned. Without knowing the user group, the Division cannot accurately determine underutilization.

At the December 2010 Board of Examiners meeting, the Division provided an explanation for why the state's utilization policy included two options for long-term vehicles. The number of days used would help address vehicles that may be driven only short distances, but are needed every workday for the agency to accomplish its mission. Second, revised mileage thresholds were approved for vehicles driven longer distances but not needed as often.

Untimely Preventive Maintenance Could Impact Vehicle Performance and Safety

Preventive maintenance on Division vehicles was not always performed timely. We noted 10 of 25 (40%) vehicles we tested did not have timely required services, such as an oil change, lube, and vehicle inspection. This is a repeat audit finding from our 2010 audit, which reported a 30% exception rate for untimely preventive maintenance. Examples of untimely maintenance follow.

- Annual preventive maintenance for a 2015 Chevy Silverado was 266 days late. When it was serviced, the vehicle had been driven 1,500 miles over the 5,000-mile threshold for preventive maintenance.

- Preventive maintenance for a 2008 Chevy Impala was performed within 1 year of the prior service, but the vehicle had been driven 4,054 miles over the 5,000-mile threshold for preventive maintenance.

SAM 1318 specifies Division vehicles must be maintained at a level that meets or exceeds the vehicle manufacturer's recommended maintenance schedule. Further, the Division's written policies and procedures require Level A service every 5,000 miles or 1-year period, whichever comes first. Level A service includes 22 procedures such as oil change, various inspections, and tire rotation. The more extensive Level B service, for such items as replacing fuel filters, air filters, and transmission flush must be performed every 25,000 miles.

The Division uses reports from the fleet asset system to monitor vehicle maintenance due dates and services performed. Staff explained they informally contact agencies to schedule maintenance when it is due, but some agencies do not comply with requests to bring vehicles in for services. However, the Division was unable to provide documentation of their requests for agencies to schedule service appointments.

Vehicle efficiency, safety, and longevity is enhanced with regular preventive maintenance services. For example, when tires are not properly inflated to meet the manufacturer's recommendation, there is increased risk of a flat tire or blowout and mileage is negatively impacted. Further, untimely maintenance may increase the number of breakdowns and downtime.

Recommendations

1. Develop policies and procedures for monitoring vehicle utilization. Communicate underutilization information to responsible agencies and the Department of Administration.
2. Require agencies request exemptions from minimum use requirements, when necessary for mission-critical vehicles.
3. Follow policies and procedures for corrective action when agencies underutilize assigned vehicles, including reassignment or elimination of unused vehicles.
4. Ensure all required monthly vehicle usage data is obtained from agencies and calculate utilization in accordance with requirements.
5. Establish controls to help ensure vehicle maintenance is performed timely.

Better Monitoring Needed Over Fuel Cards

While the Division's controls over procurement cards were adequate, monitoring of fuel card purchases to reduce the risk of improper charges was not sustained after our prior audit in 2010. Testing of monthly fuel card purchases for 60 vehicles showed 13% had unusually low miles per gallon (mpg) ratios. In addition, the Division did not maintain accurate listings of outstanding fuel cards. Fuel purchases for fiscal year 2019 were nearly $1.4 million.

Miles Per Gallon Analysis May Reduce Risk of Improper Fuel Card Use

The Division does not have adequate monitoring of fuel card usage for its vehicles. Testing for 60 vehicles revealed 8 (13%) instances of low mpg ratios. Specifically, each vehicle's mpg fell below the Environmental Protection Agency's (EPA) range for city and highway driving by more than 2 mpg. For example, Exhibit 9 shows a 2018 Chevy Colorado, used by a state agency in Las Vegas, had mpg below the vehicle's EPA range of 17-24 mpg in each of the 10 months from July 2018 to April 2019.

2018 Chevy Colorado MPG **Exhibit 9**
July 2018 Through April 2019

Month	**Miles Driven**[1]	**Gallons Purchased**	**MPG**
July	1,901	163.8	11.6
August	2,016	156.7	12.9
September	2,093	142.4	14.7
October	924	60.3	15.3
November	726	88.4	8.2
December	43	35.4	1.2
January	484	31.9	15.2
February	1,411	98.5	14.3
March	1,465	126.7	11.6
April	617	41.9	14.7
10-Month Average			**12.3**

Source: Division records of miles driven and vendor fuel statements for gallons purchased.
[1] Miles driven from agencies' self-reported month-end mileage reports. The EPA range for this vehicle is 17-24 mpg.

The Division assigns two fuel cards per vehicle, one issued by the Department of Transportation fueling network, and the other from the state-contracted commercial fueling network. In addition, some vehicles may have a third fuel card issued for the purchase of alternative fuels.

The Division does not use miles per gallon analysis to help reduce risk that improper fuel card use could go undetected. The current informal process for monitoring of fuel card billings is limited to staff visually scanning the monthly statements for potentially fraudulent purchases. This review includes looking for diesel fuel charges on fuel cards assigned to non-diesel vehicles. Staff advised such transactions are easily detectable since there are only five diesel vehicles in the fleet. In addition, staff reported the fuel card billings are also reviewed for fraud indicators of unusually high quantities of gallons purchased or consecutive days of refueling.

The Division provided documentation that staff identified $7,412 in fraudulent fuel card charges for diesel fuel purchases using the State-contracted fuel provider in 2018. Staff explained the thefts occurred in Las Vegas where thieves used skimming devices on the fuel card point-of-sale devices at gas stations. The Division was unable to provide documentation that the fuel vendor reimbursed the fraudulent charges; however, the vendor canceled the fuel cards upon the Division's notification.

Our 2010 audit reported the same problem with inadequate monitoring of monthly fuel card billings. As a result of the prior audit, the Division developed new procedures dated April 2011, for monthly reviews of a sample of vehicles' fuel purchases compared to the miles driven. Follow up after the prior audit noted the Division followed the new procedures for mpg analysis from January 2010 through September 2011. However, the Division was unable to provide documentation of any further reviews after 2011, and management confirmed the review process has been discontinued. When vehicle mpg is not monitored, there is unnecessary risk that unauthorized fuel purchases may not be detected.

NRS 336.030(1) states the Division's purpose includes ensuring economical utilization of state-owned vehicles. Furthermore, SAM 1416 states fuel cards are assigned to each individual vehicle and are prohibited to be used for any other vehicle. Agencies will be charged for unauthorized purchases and misuse may be reported to the Office of the Attorney General.

Fuel Card Listings Not Accurate

The Division did not maintain an accurate listing of outstanding fuel cards. The Division's listings of fuel cards for its two fuel vendors showed more fuel cards than anticipated. When asked about the discrepancy, staff explained maintaining accurate fuel card listings is not a priority. Under the existing process, the Division's spreadsheet listing fuel cards is not updated when new cards are issued or existing cards are canceled. To compensate for this lack of recordkeeping, staff reported the fuel vendors can provide listings on demand.

Fuel cards can easily be diverted for fraudulent purchases, lost, or stolen. Maintaining an up-to-date internal listing of fuel cards assigned to each vehicle is an important control activity, similar to the State's controls over procurement cards.

Recommendations

6. Reestablish procedures for using miles per gallon ratios to monitor fuel card billings and investigate fuel purchases for vehicles with unreasonably low miles per gallon.
7. Establish procedures to periodically review and update fuel card listings.

Appendix A
Audit Methodology

To gain an understanding of the Fleet Services Division (Division), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to its operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Division. Furthermore, we documented and assessed the adequacy of the Division's controls over vehicle utilization, fuel, and procurement cards.

To determine if the Division had adequate controls over vehicle utilization, we analyzed the Division's database listings of vehicles for calendar year 2018. We obtained inventory lists of 2018 vehicles with mileage totals by month, and compiled the calendar year mileage totals for a list of 1,136 long-term vehicles assigned to agencies. To verify the accuracy and reliability of the listings, we traced 10 vehicles and mileage totals from the lists to the physical files. We traced another sample of 10 vehicles and mileage data from the physical files to the lists. From the list, we excluded 500 vehicles that were either identified as law enforcement exempt from utilization requirements, or in service as long-term rentals only part of the year, which left a population of 636 vehicles for testing.

To test vehicle utilization, we selected a sample of the 20 most underutilized vehicles, plus a random selection of 19 other vehicles with annual mileage of 8,400 or less. We traced total miles driven to the users' monthly mileage reports, reviewed files, and made inquiries to determine if user agencies requested exemption from utilization requirements.

To determine if preventive maintenance was done timely, we selected a random sample of 25 vehicles. For each vehicle tested, we obtained the vehicle maintenance history in the

Division's database and the work order history in files, to test for timely maintenance according to the Division's maintenance schedules. Vehicles with maintenance over 30 days past due, or 1,000 miles over the 5,000-mile requirement were considered exceptions.

To determine if the Division had adequate controls over fuel cards, we performed detailed testing on fuel card transactions for the months of August 2018, November 2018, and April 2019. Our selection process for the judgmental sample from the population of July 2018 through April 2019 fuel card billings, which totaled $1.1 million, considered factors such as frequent refueling or unusually high volume of gallons per vehicle. This resulted in a sample of 60 vehicles' monthly fuel charges, 20 for each of the 3 months split evenly between the two fuel vendors, with a total of $17,000 in fuel transactions reviewed. We calculated the fuel economy for each vehicle using the monthly mileage reports. We expanded testing for the eight vehicles with unusually low miles per gallon (mpg) ratios, and calculated the monthly fuel economy for the 10 months through April 2019, to check for unusual patterns, trends, or anomalies. We also tested the reasonableness of the Division's fuel card listings for April 2019.

To determine the adequacy of controls over procurement cards, we judgmentally selected 15 transactions per month from 3 months plus 15 more tire purchases, for a sample size of 60 purchases totaling nearly $27,000. The population of all procurement card payments from July 2018 through April 2019, which totaled $512,000. We traced all transactions to the work orders, receipts, and vehicle maintenance history in the database. We concluded controls over procurement cards were adequate, including controls over vehicle parts and tire inventory.

We used non-statistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that non-statistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project exceptions to the population, because errors were not projectable. Our sample included both randomly and judgmentally selected items.

Our audit work was conducted from January 2019 to September 2019. 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.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Fleet Services Division. On January 24, 2020, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 21.

Contributors to this report included:

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Deputy Legislative Auditor

Diana Giovannoni, CPA
Audit Supervisor

Shannon Ryan, CPA
Chief Deputy Legislative Auditor

Appendix B

Response From Fleet Services Division

Steve Sisolak
Governor

Laura Freed
Director

Robbie Burgess
Administrator

STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
FLEET SERVICES DIVISION
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February 3, 2020

Daniel L. Crossman, CPA
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson St.
Carson City, Nevada 89701

RE: 2019 Fleet Services Audit

Dear Mr. Crossman:

The Fleet Services Division would like to thank you and your staff for conducting your audit in a timely and professional manner. While audits are generally not an experience agencies look forward to, they are a valuable to tool in managing any organization. I value your staff's time and input, and I enjoyed working with them.

The Fleet Service Division accepts all <u>seven</u> recommendations.

As I stated in our audit meeting, Division staff was aware of several of the areas of concern, and we have implemented solutions for correcting those areas.

Recommendation #1: Develop policies and procedures for monitoring vehicle utilization. Communicate underutilization information to responsible agencies and the Department of Administration.

The Division does have established policies and procedures regarding vehicle utilization resulting from the previous LCB Audit from 2010.

However, the Division has been deficient in documenting those processes and in enforcing the existing utilization policy in the State Administrative Manual (SAM). My plan is to work with the Governor's Finance Office in updating the State Administrative Manual (SAM) to create greater enforcement mechanisms within the manual and to create policy uniformity and result in long-term cost savings not only to Fleet Services, but to the state as a whole.

Recommendation #2: Require agencies request exemptions from minimum uses requirements, when necessary for mission critical vehicles.

The Division has worked with our assigned Governor's Finance Office analyst in communicating with agencies regarding underutilized vehicles in the past. However, this process has not been properly documented nor incorporated into our daily mission. The Division will update our policies and procedures to ensure future correspondence with agencies and GFO staff is properly documented for existing and new vehicle requests regarding exemptions.

Recommendation #3: Follow policies and procedures for corrective action when agencies underutilize assigned vehicles, including reassignment or elimination of unused vehicles.

The Division implemented policies and procedures regarding utilization of state issued vehicles in response to the 2010 LCB Audit. The Division will review and enforce these guidelines for the future usage of state-owned vehicles.

Recommendation #4: Ensure required monthly vehicle usage data is obtained from agencies and calculate utilization in accordance with requirements.

The Division currently utilizes forms on which agencies report current mileage and usage on a monthly basis. The Division will review agencies' information submittals on these forms to accurately ascertain the exact usage and mileage of each agency assigned vehicles.

Recommendation 5#: Establish controls to help ensure vehicle maintenance is performed timely.

The Division operates an extensive maintenance program and has good policies in place to address maintenance procedures. However, the Division's policies and procedures did not address the maintenance timeliness issue adequately. The Division will update our policies to address this concern.

The Division intends to coordinate with the Governor's Finance Office to develop an update to the State Administrative Manual that will give the Division an enforcement avenue to adhere to established policies and procedures.

Recommendation #6: Reestablish procedures for using miles per gallon ratios to monitor fuel card billings and investigate fuel purchases for vehicles with unreasonably low miles per gallon.

Procedures were developed from the 2010 LCB Audit and are currently in-place.

However, the Division has been deficient in documenting those processes The Division will review our policies and procedures to address this concern.

Recommendation #7: Establish procedures to periodically review and update fuel card listings.

Procedures were developed from the 2010 LCB Audit and are currently in-place.

However, the Division has not completed its reviews in a timely fashion. The Division will review our policies and procedures to address this concern.

Again, thank you for the time and effort you and your staff put in to help us improve our operations and service to our customers.

Sincerely,

Robbie Burgess, Administrator
Fleet Services Division

cc: Laura Freed, Director, Department of Administration

Fleet Services Division's Response to Audit Recommendations

	Recommendations	Accepted	Rejected
1.	Develop policies and procedures for monitoring vehicle utilization. Communicate underutilization information to responsible agencies and the Department of Administration	X	
2.	Require agencies request exemptions from minimum use requirements, when necessary for mission-critical vehicles	X	
3.	Follow policies and procedures for corrective action when agencies underutilize assigned vehicles, including reassignment or elimination of unused vehicles	X	
4.	Ensure required monthly vehicle usage data is obtained from agencies and calculate utilization in accordance with requirements	X	
5.	Establish controls to help ensure vehicle maintenance is performed timely	X	
6.	Reestablish procedures for using miles per gallon ratios to monitor fuel card billings and investigate fuel purchases for vehicles with unreasonably low miles per gallon	X	
7.	Establish procedures to periodically review and update fuel card listings	X	
	TOTALS	7	