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We have completed an audit of the Motor Pool Division. This audit is part of 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. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Motor Pool Division for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

July 9, 2010
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
MOTOR POOL DIVISION

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF ADMINISTRATION MOTOR POOL DIVISION

Background

The Motor Pool was created in 1961 to provide an economical means of transportation for state employees and officers on state business. The Motor Pool maintains facilities in Carson City, Las Vegas, and Reno. The Division operated a fleet of 849 vehicles in July 2009 that cost approximately \$13 million. Of these vehicles, 736 were on assignment to state agencies, and 113 were used as daily rentals.

In fiscal year 2009, the Motor Pool was authorized 15.51 positions. Operating expenditures totaled \$4.85 million during the year. The Division's primary source of funding is vehicle rental fees.

Purpose

The purpose of this audit was to determine whether the Motor Pool Division had controls in place to ensure the economical utilization of Motor Pool vehicles, and whether fuel card and purchase card transactions were safeguarded against loss and misuse. Our audit focused on the Division's activities for fiscal years 2008 and 2009.

Results in Brief

The Motor Pool can improve the economical utilization of its vehicle fleet. The Division does not adequately monitor its fleet for potential elimination or reassignment of unneeded vehicles. We estimate the Motor Pool could save about \$1.6 million by delaying new vehicle purchases and reducing its fleet size. In addition, vehicles assigned to state agencies are not always maintained in

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accordance with established maintenance schedules. Preventive maintenance is important for controlling repair costs and performing vehicle safety checks. Additional savings may be realized by determining the most cost-effective time to replace vehicles.

The Motor Pool has significant weaknesses in its system of internal control. Specifically, controls over fuel cards were not adequate to deter improper use and to detect illegal transactions in a timely manner. Controls over fuel card use are important because fuel purchases totaled more than \$900,000 in fiscal year 2009. In addition, required reviews of purchase card transactions were not documented by staff. Most problems we identified throughout our audit report stem from management and staff not following the Division's internal controls and not documenting control activities performed.

Principal Findings

- Many Motor Pool vehicles did not meet the Division's minimum use requirements. Our testing identified that 162 of 736 (22%) agency assigned vehicles were driven less than 6,000 miles during 2009. Low-use vehicles resulted in some agencies spending too much for transportation costs. State policies require the Motor Pool to monitor vehicles for low-use and reassign them if necessary. However, management has not actively monitored vehicles for low-use or followed Division policies for investigating low-use vehicles. (page 9)
- We estimate the Motor Pool could save \$1.6 million in future vehicle replacement costs by reducing its fleet by 73 low-use vehicles assigned to state agencies. These savings would occur if low-use vehicles were eliminated or reassigned and the Motor Pool delayed the purchase of replacement vehicles. Reducing the fleet size will save an average of \$21,835 per vehicle

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in future replacement costs and annual costs. This estimate includes the average capital outlay of \$18,360 for each vehicle purchased during fiscal year 2009, and \$3,475 in other reoccurring costs such as insurance and registration over the life of the vehicle. (page 13)

- Vehicles were not always maintained according to the Division's preventive maintenance schedule during fiscal years 2008 and 2009. Our testing identified that preventive maintenance was not timely for 85 of 279 (30%) required services, such as an oil change and vehicle inspection. The cost of these services are included in the monthly rate charged to agencies for Motor Pool vehicles. Without regular maintenance a vehicle's economic useful life may be compromised resulting in higher repair costs, lower resale value, and premature replacement. The Motor Pool can improve its maintenance process by using a report from its fleet management system that shows when a vehicle's maintenance is past due. (page 14)
- The Motor Pool has not documented a replacement analysis to determine the most cost-effective time to replace vehicles. Although replacement policies have been revised in recent years, these changes have taken place without an analysis of costs. In general, most cars are replaced at an average of 90,000 miles. Savings could be realized by using a cost analysis to enhance the replacement decisions. Replacement decisions are important because the Motor Pool oversees a fleet of 849 vehicles with a total cost of over \$13 million. (page 16)
- Although hybrid vehicles help to provide an environment friendly fleet, more attention is needed on recovering the initial cost premium paid when these vehicles are purchased. Relatively low gasoline prices prevented the hybrid vehicles retired in 2009 from generating fuel savings to recover a cost

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premium of about \$8,600. Because recovery of the cost premium depends primarily on miles driven and gas prices, the Motor Pool should try to place hybrid vehicles at agencies with high utilization. Hybrid replacement and cost recovery issues are important because the Motor Pool now has about 40 hybrid vehicles with a total cost of approximately \$870,000. (page 18)

- Monthly fuel card billings were not adequately monitored for improper use. We identified 16 vehicles that should have been promptly investigated for improper fuel card use from our review of 4 month's billing statements. Unusual fuel purchases for one vehicle were investigated by the Attorney General's Office during our audit. According to the Motor Pool, the investigation involved a theft of fuel which totaled approximately \$5,000. Although the theft occurred for about 1 year, the Motor Pool did not become aware of the problem until it received an exception report from the statewide fuel provider showing three purchases in 1 day. Unusual fuel purchases for this vehicle should have been identified much sooner since this was one agency's only Motor Pool vehicle. (page 21)
- Motor Pool staff did not document all required reviews of purchase card transactions for vehicle repairs and maintenance. These reviews include ensuring that the purchased goods are reasonable and relevant to the repair, and that the maintenance costs are correctly entered into the Division's fleet management database. Of 30 transactions tested, there was no evidence that invoices were reviewed regarding the propriety of the purchase. In addition, no documentation was available to show that required periodic reviews were performed by supervisory staff. Our testing identified three data entry errors and small amounts of sales taxes paid on two purchases. Without documentation of reviews performed, management does not have reasonable assurance that controls are working as intended. (page 25)

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Recommendations

This report contains 11 recommendations to improve the Division's internal controls. Five recommendations include improving controls to help ensure the economic utilization of Motor Pool vehicles. We also made six recommendations to improve controls over fuel card and purchase card expenditures. (page 32)

Agency Response

The Division, in response to the audit report, accepted the 11 recommendations. (page 29)

Introduction

Background

The Motor Pool was created in 1961 for the following purposes:

- To ensure economical utilization of state-owned vehicles;
- To eliminate 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; and
- To provide a facility for the maintenance needs of selected state-owned vehicles.

The Motor Pool maintains facilities in Carson City, Las Vegas, and Reno. The Division operated a fleet of 849 vehicles in July 2009 that cost approximately \$13 million. Of these vehicles, 736 were on assignment to state agencies, and 113 were used for daily rentals. The distribution of Motor Pool vehicles as of July 2009 is shown in Exhibit 1.

Exhibit 1

Distribution of Motor Pool Vehicles

<u>Agency</u>	<u>Number of Vehicles</u>
Department of Health and Human Services	314
Division of Parole and Probation	211
Other State Agencies	142
Gaming Control Board	69
Total Assigned to Agencies	736
Motor Pool Daily Rentals	113
Total Motor Pool Vehicles	849

Source: Motor Pool Inventory report as of 07/29/09.

During fiscal year 2009, the Motor Pool was authorized 15.51 positions. The Motor Pool also receives accounting services and other assistance from the Department of Administration's Administrative Services Division. In 2009, the Motor Pool paid the Administrative Services Division about \$150,000 for professional services. The Motor

Pool has two budget accounts, an operating account and the Motor Pool Fund. The Motor Pool Fund receives General Fund appropriations for vehicle purchases. Exhibit 2 shows the Division's operating expenditures for fiscal year 2009.

Exhibit 2

**Motor Pool Expenditures
Fiscal Year 2009**

Category	Expenditures
Personnel Services	\$888,308
Other Operating ⁽¹⁾	622,317
Vehicle Operation	1,655,901
Vehicle Depreciation ⁽²⁾	1,418,000
Outside Vehicle Rentals	128,617
Equipment	26,791
State Cost Recovery	79,708
General Fund Payback	33,234
Total	\$4,852,876

Source: State accounting system.

⁽¹⁾ Includes building rent, maintenance, and utilities; information services and professional services.

⁽²⁾ Transferred to Motor Pool Fund account for vehicle replacements.

The primary funding source is vehicle rental fees totaling approximately \$4.8 million in 2009. The Division charges a daily or monthly rate plus a charge for each mile driven. Exhibit 3 shows daily and monthly rental rates as of July 2009.

Exhibit 3

**Motor Pool Rates
Effective July 2009**

Vehicle Type	Daily	Monthly	Per Mile
Compact	\$25	\$308	\$0.16
Intermediate	\$26	\$350	\$0.17
Premium	\$27	\$363	\$0.26
Specialty ⁽¹⁾	\$31	\$560	\$0.26

Source: Motor Pool Division.

⁽¹⁾ Specialty vehicles include full size SUVs, 1 ton vehicles, and 4WD trucks.

Scope and Objectives

This audit is part of the ongoing program of the Legislator Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislator 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 operations of state agencies, programs, activities, and functions.

This audit included a review of the Motor Pool Division's fleet management activities for fiscal years 2008 and 2009. The objectives of our audit were to determine whether:

- The Division has controls in place to ensure the economical utilization of Motor Pool vehicles.
- The Motor Pool's internal controls provide reasonable assurance that fuel card and purchase card transactions are safeguarded against loss and misuse.

Findings and Recommendations

Economical Utilization of Motor Pool Vehicles Can Be Improved

The Motor Pool can improve the economical utilization of its vehicle fleet. The Division does not adequately monitor its fleet for potential elimination or reassignment of unneeded vehicles. We estimate the Motor Pool could save about \$1.6 million by delaying new vehicle purchases and reducing its fleet size. In addition, vehicles assigned to state agencies are not always maintained in accordance with established maintenance schedules. Preventive maintenance is important for controlling repair costs and performing vehicle safety checks. Additional savings may be realized by determining the most cost-effective time to replace vehicles.

Motor Pool Vehicles Not Adequately Monitored for Underutilization

Many Motor Pool vehicles did not meet the Division's minimum use requirements during fiscal year 2009. Our testing identified that 22% of agency assigned vehicles were driven less than 6,000 miles during the year. Low-use vehicles resulted in some agencies spending too much for transportation costs. Furthermore, significant savings could be realized by delaying new vehicle purchases and reassigning low-use vehicles to agencies that need them.

Low-use Vehicles

Our testing identified that 162 of 736 (22%) agency assigned vehicles were driven less than 6,000 miles during 2009. State policies require the Motor Pool to monitor vehicles for low-use and reassign them if necessary. However, management has not actively monitored vehicles for low-use or followed Division policies for investigating low-use vehicles. Exhibit 4 shows the range of miles driven for the 162 vehicles driven less than 6,000 miles.

Exhibit 4

**Agency Assigned Vehicles
Vehicles Driven Less Than 6,000 Miles
Fiscal Year 2009**

Miles Driven	Number of Vehicles	Percent
0 to 1,499	13	2%
1,500 to 2,999	33	4%
3,000 to 4,499	52	7%
4,500 to 5,999	64	9%
Subtotal	162	22%
Other Assigned Vehicles	574	78%
Total	736	100%

Source: Auditor analysis of Motor Pool records.

Exhibit 5 shows examples of 10 vehicles with low annual mileage during fiscal year 2009.

Exhibit 5

**Examples of Vehicles With Low Annual Mileage
Fiscal Year 2009**

Vehicle Description	Miles Driven Reported by Agencies												Total Miles Fiscal Year 2009
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
1999 12 Passenger Van	50	155	29	46	14	3	0	63	13	10	58	39	480
1998 GMC Sonoma	106	74	140	54	80	130	148	68	201	57	141	0	1,199
2001 12 Passenger Van	120	116	51	159	100	132	155	42	37	70	60	188	1,230
2001 Jeep Cherokee	296	260	797	0	0	0	0	0	0	0	0	0	1,353
2000 Chevrolet S-10	96	0	0	0	0	837	72	5	87	0	186	96	1,379
2008 Chevrolet Impala	47	119	126	164	48	73	112	115	149	130	145	157	1,385
2004 12 Passenger Van	98	40	12	91	0	91	116	84	159	261	154	303	1,409
2008 Toyota RAV	113	29	730	182	0	19	86	152	70	0	34	26	1,441
2004 Chevrolet Malibu	71	140	401	84	43	49	84	114	102	170	83	170	1,511
2006 Toyota Highlander	70	107	208	142	155	52	44	188	151	122	58	251	1,548

Source: Motor Pool records.

Details of examples in Exhibit 5 include:

- One agency had a 2008 Toyota RAV that was driven a total of 1,441 miles during 2009. When requesting this additional vehicle from the Motor Pool, the agency estimated the vehicle would be used at least 2,000 miles per month.
- One agency had a 2000 Chevrolet S-10 that was driven a total of 1,379 miles during 2009, which included 837 miles in 1 month. According to agency personnel, the truck is currently used to move furniture during office relocations. This vehicle is assigned to Carson City where trucks can be rented daily from the Motor Pool.
- One agency had a 2008 Chevy Impala that was driven a total of 1,385 miles during 2009. The maximum and minimum monthly mileages reported were 164 and 47, respectively. The vehicle is located in Las Vegas where the agency has 31 other Motor Pool vehicles.

Nevada State Administrative Manual, section 1407.0, requires monthly assigned vehicles be driven 500 miles or used 18 days per month. In addition, this section states that agencies not meeting these guidelines will be contacted by the Motor Pool administrator and their vehicle(s) usage will be reviewed for possible reassignment.

The Motor Pool does not follow its policies and procedures for investigating low-use vehicles. These procedures state the Administrator will send a letter instructing the agency to begin documenting vehicle usage on a monthly basis and submit the usage report along with the monthly trip report for a period of 3 months. According to the Motor Pool Administrator, low-use vehicles have been investigated, but no documentation is prepared.

Agency Transportation Costs Higher Than Necessary

Low-use vehicles result in agencies spending too much per mile driven. This occurs because the agencies pay a fixed monthly fee, plus an additional charge for mileage. For example, the monthly rate for a compact sedan was \$308 per month plus \$.16 per mile as of July 2009. Exhibit 6 illustrates how the average cost per mile decreases as the miles driven increases.

Agency Cost per Mile for Compact Sedan

Annual Miles Driven	Annual Fixed Charges	Mileage Charges	Total Cost	Cost per Mile
2,000	\$3,696	\$320	\$4,016	\$2.01
6,000	\$3,696	\$960	\$4,656	\$0.78
12,000	\$3,696	\$1,920	\$5,616	\$0.47

Source: Auditor analysis of Motor Pool rates for compact sedans of \$308 per month and \$.16 per mile effective July 1, 2009.

Low-use vehicles result in inefficient spending of agency budgeted transportation costs. Examples of agencies paying high costs for low-use vehicles are shown below.

- One agency spent \$3.69 per mile for a 2001 Jeep Cherokee that was driven a total of 1,353 miles during 2009. The vehicle was not driven for 9 consecutive months during the period. The vehicle cost the agency \$4,997 during the year.
- Another agency spent an average \$1.26 per mile for all seven Motor Pool vehicles during 2009. None of the vehicles were driven the minimum 6,000 miles during the year. These vehicles cost the agency \$33,132.
- One agency had a 12 passenger van and an 11 passenger van at the same location. The vans were driven 480 and 2,301 miles during 2009, costing the agency \$10.04 and \$2.24 per mile, respectively. According to agency personnel, a vacant driver position contributed to the 12 passenger van only being driven 480 miles. This vehicle cost the agency \$4,820 during the year.

Agencies can reduce their transportation costs by eliminating certain vehicles and shifting the necessary miles to other vehicles. In addition, agencies should consider eliminating low-use vehicles and reimbursing employees for using their personal vehicle when this option is available. Exhibit 7 shows an annual cost comparison between using a Motor Pool sedan and personal vehicle reimbursement.

Motor Pool vs. Personal Vehicle Reimbursement

Annual Miles Driven	Annual Cost Comparison		Additional Cost/ (Savings) Using Motor Pool
	Motor Pool ⁽¹⁾	Personal Vehicle Reimbursement ⁽²⁾	
3,000	\$4,176	\$1,500	\$ 2,676
6,000	\$4,656	\$3,000	\$ 1,656
9,000	\$5,136	\$4,500	\$ 636
10,870	\$5,435	\$5,435	\$ 0
12,000	\$5,616	\$6,000	\$ (384)
15,000	\$6,096	\$7,500	\$ (1,404)
18,000	\$6,576	\$9,000	\$ (2,424)

Source: Auditor analysis of Motor Pool and personal reimbursement rates.

⁽¹⁾ Monthly rate for compact sedans of \$308 per month and \$.16 per mile effective July 1, 2009.

⁽²⁾ State personal vehicle reimbursement rate of \$.50 per mile effective January 1, 2010.

As shown in Exhibit 7 the breakeven mileage, where the Motor Pool cost equals the personal vehicle reimbursement cost, is 10,870 miles for compact sedans. Therefore, agency financial managers should consider this breakeven point when budgeting for transportation costs.

Significant Savings Could Be Realized by Reducing the Fleet Size

We estimate the Motor Pool could save \$1.6 million in future vehicle replacement costs by reducing its fleet by 73 low-use vehicles assigned to state agencies. These savings would occur if low-use vehicles were eliminated or reassigned and the Motor Pool delayed the purchase of replacement vehicles. Although we identified 162 agency assigned vehicles that did not meet the minimum mileage requirements, not all of these vehicles should be eliminated or reassigned. The minimum mileage is only one of several criteria that should be considered when investigating a low-use vehicle.

We identified 73 vehicles that could potentially be eliminated. Because the Motor Pool did not follow its policies and procedures for investigating low-use vehicles, documentation was not available regarding a vehicle's justification for low-use. Therefore, we considered the following factors when identifying vehicles for potential elimination: (1) the number of annual miles driven, (2) the number of other vehicles available, (3) the accessibility to renting daily Motor Pool vehicles, (4) vehicle type and

use, and (5) vehicle location. The 73 vehicles represent about 10% of the total agency assigned vehicles.

Reducing the fleet size will save an average of \$21,835 per vehicle in future replacement costs and annual costs. This estimate includes the average capital outlay of \$18,360 for each vehicle purchased during fiscal year 2009, and \$3,475 in other reoccurring costs such as insurance and registration over the life of the vehicle.

The large number of low-use vehicles we identified indicates that some agencies are not monitoring their transportation budgets closely. Although the Motor Pool should follow its policies and procedures for investigating low-use vehicles, agencies have a shared responsibility for ensuring their transportation budget is spent efficiently. Eliminating agency vehicles may be difficult to enforce without assistance from agency financial managers and the Budget Division of the Department of Administration.

Recommendations

1. Monitor vehicle utilization in accordance with policies and procedures.
2. Work with agency financial managers and the Budget Division to eliminate or reassign unneeded vehicles.

Untimely Preventive Maintenance

Vehicles were not always maintained according to the Division's preventive maintenance schedule during fiscal years 2008 and 2009. Our testing identified that preventive maintenance was not timely for 85 of 279 (30%) required services, such as an oil change and vehicle inspection. The Motor Pool's preventive maintenance (PM) policy requires certain services every 5,000 and 25,000 miles respectively. The cost of these services are included in the monthly rate charged to agencies for Motor Pool vehicles. The services included in each maintenance schedule are described below.

PM A Service (Every 5,000 Miles) – Includes changing the engine oil and filter, inspecting and lubing steering components and drivelines, rotating the tires, inspecting and adjusting brakes, checking and filling fluid levels, checking the transmission/transfer case and differential fluids, inspecting and adjusting all belts and hoses, and adding fuel injection cleaner.

PM B Service (Every 25,000 Miles) – Includes a complete PM A service plus other services such as checking and/or replacing the spark plugs, the distributor cap, rotor, and spark plug wires and replacing the PCV valve and fuel filter.

Our audit included a review of the maintenance history for 80 vehicles. Of these vehicles, 50 (62.5%) had at least one untimely service during the 2 years we tested. We did not consider maintenance untimely unless the PM A service was more than 1,000 miles past due and PM B service more than 5,000 miles past due. Ten vehicles were far overdue, having PM A services greater than 10,000 miles apart. For example:

- One new vehicle was placed in service in April 2006 and did not have its first PM A until May 2008, at 18,445 miles.
- Another vehicle was serviced in September 2006 at 53,880 miles. The next PM A service occurred in February 2009 at 71,783 miles, 17,903 miles between services.
- One vehicle was serviced in November 2005 at 44,548 miles. The next PM A service occurred in July 2007 at 61,628 miles, 17,080 miles between services.

Without regular maintenance a vehicle's economic useful life may be compromised resulting in higher repair costs, lower resale value, and premature replacement. In addition, inadequate maintenance may increase the number of breakdowns and downtime. Finally, a vehicle's safety is enhanced with regular inspections.

The Motor Pool relies on the vehicle's driver to monitor when maintenance is due for agency assigned vehicles. The primary method is placing a sticker on the windshield with the odometer reading when the next service is due. Although management indicated that staff telephone agencies when a vehicle's maintenance is past due, no documentation was available to verify this process occurs.

The Motor Pool can improve its maintenance process by using a report from its fleet management system. An Equipment Due or Late for PM Report is available showing a vehicle's mileage, the odometer reading when maintenance is due, and the number of miles past due. Staff should use this report monthly and notify agencies when maintenance is needed. Notifying agencies by email would provide management with documentation on staff efforts to ensure timely vehicle maintenance.

Recommendation

3. Develop policies and procedures to ensure vehicles are maintained in accordance with established maintenance schedules.

Vehicle Replacement Policy Not Supported by Cost Analysis

The Motor Pool has not documented a replacement analysis to determine the most cost-effective time to replace vehicles. Although replacement policies have been revised in recent years, these changes have taken place without an analysis of costs. In general, most cars are replaced at an average of 90,000 miles. Savings could be realized by using a cost analysis to enhance the replacement decisions. Replacement decisions are important because the Motor Pool oversees a fleet of 849 vehicles with a total cost of over \$13 million.

The replacement policy should be an optimal point when it is generally the best time to replace vehicles. As vehicles age, they incur progressively higher operating and repair expenses. In addition, vehicles replaced too late in their useful lives typically have greater downtime and low resale value. Conversely, vehicles replaced too soon will have a higher resale value, but may increase the average cost per mile for the fleet. Judgment and flexibility are needed because some vehicles may need replacement sooner and other vehicles may have longer service lives.

The Motor Pool's current vehicle replacement policy was established in April 2009. According to management no cost analysis was performed; however, the policy was established after reviewing similar government fleets in the State including the City of Reno, City of Las Vegas, Washoe County, and the Nevada Department of Transportation. Exhibit 8 shows the Motor Pool's replacement policies and practices during our audit.

Exhibit 8

**Motor Pool Vehicles
Replacement Policies and Practices**

	Passenger Cars	Trucks, Vans & SUVs
Replacement Policy Prior to April 2009	6 Years <u>and</u> 80,000 miles, or 100,000 miles at any age, or 10 years and any mileage	8 Years <u>and</u> 80,000 miles, or 100,000 miles at any age, or 10 years and any mileage
Actual Replacement Practice During Fiscal Year 2009	Average of 89,410 miles and 9.2 years for 51 vehicles	Average of 108,941 miles and 6.9 years for 10 vehicles
New Replacement Policy Established April 2009	8 years <u>or</u> 100,000 miles	8 years <u>or</u> 125,000 miles

Source: Motor Pool records.

Our review of replacement practices found the Motor Pool replaces vehicles based primarily on mileage. During fiscal year 2009, 51 sedans and small trucks averaged 89,410 miles and 9.2 years of service when retired. Ten SUV's and large trucks averaged 108,941 miles and 6.9 years of service. Exhibit 9 shows the average years and mileage for Chevrolet Cavaliers retired in fiscal year 2009.

Exhibit 9

**Chevrolet Cavaliers Retired in Fiscal Year 2009
Average Years in Service and Mileage**

Model Year	Cavaliers Retired	Average Years in Service	Average Mileage
1996	5	12.5	85,202
1997	1	11.5	100,050
1998	3	10.5	83,411
1999	3	8.7	83,401
2000	1	7.6	98,038
2001	4	7.6	90,653
2002	5	6.9	96,078
2003	2	5.9	94,773
2004	1	5	102,560
Totals	25	8.8 *	90,386 *

Source: Auditor analysis of Motor Pool records.

* Weighted average totals.

Some states are beginning to stretch their replacement policies because of budget constraints. For example, Oregon indicated their replacement policy for standard vehicles was 8 years or 110,000 miles. However, they typically kept vehicles to 120,000 miles. In 2009, mileage requirements were extended to 130,000 miles regardless of age. In addition, Colorado indicated that for the last several years non-patrol vehicles were replaced on average at 135,000 miles. Because the Motor Pool has also extended its mileage requirements in April 2009, we believe that management should analyze the impact of this change to determine whether it is cost effective.

Payback for Hybrid Vehicles Difficult to Achieve

Although hybrid vehicles help to provide an environment friendly fleet, more attention is needed on recovering the initial cost premium paid when these vehicles are purchased. Because recovery of the cost premium depends primarily on miles driven and gas prices, the Motor Pool should try to place hybrid vehicles at agencies with high utilization. Hybrid replacement and cost recovery issues are important because the Motor Pool now has about 40 hybrid vehicles with a total cost of approximately \$870,000 as of December 2009.

The Motor Pool's first hybrid vehicles were purchased in 2001 and retired in 2009. These vehicles cost more over their service life than other comparable vehicles. The higher overall cost was due mainly to difficulty generating sufficient fuel savings to recover the hybrid cost premium. During the 8-year period these hybrid vehicles were in service, gasoline prices averaged about \$1.80 per gallon. Therefore, the relatively low gasoline prices prevented the hybrid vehicles from generating fuel savings to recover a cost premium of about \$8,600 paid when these hybrids were purchased. Exhibit 10, shows a cost comparison over the service life of three Toyota Prius vehicles compared to three Chevrolet Cavaliers.

**Hybrid and Standard Vehicle Cost Comparison
Vehicles Retired in 2009**

Toyota Prius Hybrid

Year	Age	Mileage	Purchase Price	Estimated Fuel Cost	Maintenance Cost	Total Cost	Resale Value	Net Cost	Cost per Mile
2001	8.1	89,661	\$ 19,995	\$ 3,914	\$ 3,380	\$ 27,289	\$ 4,065	\$ 23,224	\$ 0.26
2001	8.2	96,256	19,995	4,202	2,954	27,151	4,160	22,991	0.24
2002	7.0	92,404	20,700	4,237	2,220	27,157	4,350	22,807	0.25
Average	7.8	92,774	\$ 20,230	\$ 4,118	\$ 2,851	\$ 27,199	\$ 4,192	\$ 23,007	\$ 0.25

Chevrolet Cavalier

Year	Age	Mileage	Purchase Price	Estimated Fuel Cost	Maintenance Cost	Total Cost	Resale Value	Net Cost	Cost per Mile
1998	10.4	89,824	\$ 11,513	\$ 6,092	\$ 2,708	\$ 20,313	\$ 1,360	\$ 18,953	\$ 0.21
2002	7.0	96,233	11,627	7,538	1,238	20,403	1,785	18,618	0.19
2002	6.5	97,585	11,627	7,644	3,060	22,331	2,210	20,121	0.21
Average	8.0	94,547	\$ 11,589	\$ 7,092	\$ 2,335	\$ 21,016	\$ 1,785	\$ 19,231	\$ 0.20

Source: Auditor analysis of Motor Pool records.

As shown in Exhibit 10, the average net cost of the Prius was \$23,007 compared to \$19,231 for the Cavalier, a difference of \$3,776. Assuming that gasoline prices remain constant at 2010 prices, the Motor Pool can recover more of the hybrid cost premium. However, to recover the full cost premium, the hybrid vehicles would need to be driven more miles. Based on a gasoline price of \$2.79 per gallon in February 2010, we estimate the hybrid vehicles shown in Exhibit 10 would need to be driven about 115,000 miles before the average cost per mile would be equal to the Cavalier.

Although it is difficult to recover the additional cost of hybrid vehicles, the Motor Pool should attempt to recover as much of the cost premium as possible by placing vehicles in higher-use situations. Examples of hybrid vehicles not placed in high-use situations include:

- A 2002 Toyota Prius was driven 3,471 miles during the year and had only 44,398 miles as of June 30, 2009.

- A 2002 Toyota Prius was driven 5,326 miles during the year and had only 52,974 miles as of June 30, 2009.
- During fiscal year 2009, an agency that did not drive any of their Motor Pool vehicles more than 6,000 miles during the year, received a 2009 Toyota Prius. The combined annual mileage of the Prius and the vehicle it replaced was 4,803.

Because the Motor Pool does not plan to keep hybrid vehicles for more than an average of 8 years or 100,000 miles, it is likely these vehicles will have relatively low miles when replaced.

According to management, the Motor Pool completed its first full life cycle on several hybrid vehicles in 2009. These vehicles were not kept longer than an average of 8 years or 100,000 miles because of concerns regarding expensive battery replacement and hybrid repair costs. Eight years or 100,000 miles corresponds with the battery warranty for the hybrid vehicles. As more industry data becomes available regarding hybrid battery life, the Motor Pool should evaluate whether these vehicles can be kept in service for longer than the warranty period.

Nevada Legislature's Concerns

During the 2009 Legislative Session, the Assembly Committee on Ways and Means and Senate Committee on Finance expressed concerns regarding the state's vehicle replacement policies. When closing the Motor Pool's budget, the money committees expressed concern that Nevada's 80,000 mile replacement cycle threshold may be too low, and requested that the 80,000 mile threshold for vehicle replacements be re-evaluated.

The request by the money committees includes all state fleets. The study is to include establishing a new statewide fleet policy to ensure that the requisition of new vehicles and the schedules for replacement vehicle purchases are fiscally and environmentally sound and responsible, are consistent among state fleet operators, and meet the needs of the State. According to Motor Pool management, they plan to continue to follow their current replacement policy established in April 2009. This policy is to replace passenger cars at 8 years or 100,000 miles. The replacement policy for trucks, vans, and SUV's is 8 years or 125,000 miles.

Recommendations

4. Establish a policy to periodically analyze fleet replacement issues, such as extending mileage requirements on hybrids or standard vehicles, to help ensure the Motor Pool's replacement policies are cost effective.
5. Place hybrid vehicles at high-use agencies to the extent possible.

Internal Control Weaknesses

The Motor Pool has significant weaknesses in its system of internal control. Specifically, controls over fuel cards were not adequate to deter improper use and to detect illegal transactions in a timely manner. Controls over fuel card use are important because fuel purchases totaled more than \$900,000 in fiscal year 2009. In addition, required reviews of purchase card transactions were not documented by staff. Most problems we identified throughout our audit report stem from management and staff not following the Division's internal controls and not documenting control activities performed.

Fuel Card Use Not Adequately Monitored

Monthly fuel card billings were not adequately monitored for improper use. We identified 16 vehicles that should have been promptly investigated for improper fuel card use from our review of 4 month's billing statements. Unusual fuel purchases for one vehicle were investigated by the Attorney General's Office¹ during our audit. According to the Motor Pool, the investigation involved a theft of fuel which totaled approximately \$5,000. Although the theft occurred for about 1 year, the Motor Pool did not become aware of the problem until it received an exception report from the statewide fuel provider showing three purchases in 1 day. Unusual fuel purchases for this vehicle should have been identified much sooner since this was one agency's only Motor Pool vehicle.

One way to identify improper fuel card use is to monitor a vehicle's average miles per gallon. If a vehicle's average miles per gallon is unusually low, then it is likely that the vehicle's assigned fuel card was used for another vehicle. Monitoring fuel card purchases is not difficult because billing statements contain details of each transaction

¹ According to the Attorney General's Office, this case was resolved by a guilty plea.

including the date, time, location, and gallons purchased. The following example shows how the average miles per gallon can be calculated from billing statements and mileage reports.

Exhibit 11

**Example of Fuel Transactions for One Chevrolet Cavalier
June 2008**

Fuel Provider	Date of Purchase	Time	Gallons Purchased
Western Energetix ¹	June 2, 2008	4:13 PM	11.21
NDOT	June 3, 2008	7:03 AM	9.30
NDOT	June 6, 2008	12:51 PM	12.40
Western Energetix	June 6, 2008	3:32 PM	11.78
Western Energetix	June 9, 2008	10:49 AM	11.42
NDOT	June 12, 2008	9:27 AM	11.90
Western Energetix	June 12, 2008	1:43 PM	12.09
Western Energetix	June 17, 2008	11:07 AM	10.95
NDOT	June 18, 2008	9:23 AM	10.30
Western Energetix	June 19, 2008	4:12 PM	12.23
Western Energetix	June 23, 2008	9:52 AM	11.58
NDOT	June 23, 2008	10:57 AM	11.00
NDOT	June 26, 2008	9:55 AM	12.30
Western Energetix	June 30, 2008	4:39 PM	12.63
Total Gallons Purchased			161.09
Reported Mileage Driven			1,783.00
Average Miles per Gallon			11.07

Source: Fuel provider billing statements and Motor Pool records.

⁽¹⁾ In March 2009, Haycock Petroleum Company replaced Western Energetix as the electronic fuel dispensing provider.

As shown in Exhibit 11, the Motor Pool used the fueling facilities of two main fuel providers, the Nevada Department of Transportation (NDOT) and Western Energetix. To perform our analysis, we manually combined the two billing statements to obtain an accurate total of the gallons purchased for each vehicle. In addition to the low average miles per gallon, Exhibit 11 shows several unusual transactions. For example, on June 23, 2008, 11.58 gallons were purchased at 9:52 AM. About one hour later, 11.0 gallons were purchased at another fueling location.

We requested the Motor Pool to explain why the average miles per gallon was low for the 16 vehicles we identified. Exhibit 12 provides an example from each of the 4 months we reviewed, including the Motor Pool's explanation.

Examples From Months Selected for Review

Vehicle	Month	Expected Miles per Gallon	Miles Driven	Gallons Purchased	Average Miles per Gallon	Motor Pool Explanation
Chevrolet S-10	Dec-07	22	649	240.86	2.69	Assume that NDOT card for this vehicle is used in another vehicle.
Chevrolet Colorado	Jun-08	19	629	106.12	5.93	Gas cards for entire agency are mixed up. They use whatever card they want.
Ford Taurus	Dec-08	20	655	67.40	9.72	We cannot explain what is going on with this vehicle's fuel consumption.
Chevrolet Cavalier	Jun-09	24	433	66.90	6.47	Agency is probably using one card to fill up several vehicles.

Source: Auditor analysis of fuel provider billing statements and Motor Pool records.

Although the Motor Pool indicated that most vehicles with low average miles per gallon were attributable to fuel cards being shared or in the wrong agency vehicle, we found this explanation may not always be correct. We analyzed one agency's fuel purchases for 13 vehicles and found the agency purchased 57% more fuel than required for the miles driven in December 2007. We calculated the agency's 13 vehicles should have used approximately 321 gallons of fuel based upon the reported mileage. However, the agency purchased 504 gallons, 183 gallons more than needed. Because timely monitoring did not occur and other controls were not in place, the Motor Pool cannot tell who obtained the excess fuel.

Adequate information was not available to perform further investigation for most of the 16 vehicles we identified. Because drivers do not always comply with requirements that prohibit the sharing of fuel cards and odometer readings were not always available or accurate, it is difficult to tell which driver used a fuel card and for which vehicle. In addition, drivers often share vehicles. Therefore, good controls and timely monitoring are needed to detect potential illegal acts.

During our audit, management started to establish a process for reviewing fuel billings for improper use. This includes developing a report that electronically combines the billing statements from both fuel providers into a report that can identify the total monthly purchases for a vehicle.

Poor Controls Over Fuel Card Sharing and Lack of Odometer Readings

Other controls were not in place to help prevent and detect improper fuel card use. The Division has not attempted to limit the extent to which fuel cards are shared among vehicles. In addition, odometer readings are not obtained from NDOT showing the vehicle's mileage when fuel is purchased. Although drivers may not always enter odometer readings correctly, this information can be helpful for identifying which vehicle a card is used for.

Controls over fuel card sharing are important because each fuel pump transaction is recorded to the vehicle for which the card is assigned. Therefore, if a card is used for another vehicle, both vehicles' fuel consumption will be inaccurate. State Administrative Manual, Section 1416, requires fuel cards be imprinted with the vehicle's license number and clearly informs drivers not to use the fuel card for any other vehicle. Although full compliance with this requirement cannot be expected because of emergencies and lost cards, the Motor Pool should attempt to enforce this requirement to the extent practical.

Odometer readings are not obtained from NDOT showing the vehicle's mileage when fuel is purchased. The Motor Pool's fueling procedures require drivers to enter the odometer reading when obtaining fuel from NDOT facilities. We observed this fueling process at one facility and noted the driver is required to enter the odometer reading. Although NDOT's monthly billing statements provide detailed information about each fuel transaction, the odometer reading is not included on the statement. This information can be helpful for identifying which vehicle a card is used for. Similar procedures are in place for the statewide fuel dispensing provider. This vendor provides odometer readings as part of the billing statement.

Recommendations

6. Establish procedures for periodically comparing monthly fuel purchases to the reported monthly mileage to identify improper fuel card use.
7. Document the review of improper fuel card use.

8. Develop and implement procedures to reasonably ensure drivers restrict the use of fuel cards to the assigned vehicle.
9. Request NDOT to provide odometer readings associated with each fuel transaction.

Required Reviews of Purchase Card Transactions Not Documented

Motor Pool staff did not document all required reviews of purchase card transactions for vehicle repairs and maintenance. These reviews include ensuring that the purchased goods are reasonable and relevant to the repair, and that the maintenance costs are correctly entered into the Division's fleet management database. Of 30 transactions tested, there was no evidence that invoices were reviewed regarding the propriety of the purchase. In addition, no documentation was available to show that required periodic reviews were performed by supervisory staff.

Our testing of 30 transactions identified 5 errors that may have been identified during the review process. This included three instances where the cost of items purchased was omitted or entered incorrectly into the fleet management database. For example, the cost of two full sets of tires in the amounts of \$464 and \$236 were omitted from the vehicle's maintenance history. In addition, small amounts of sales tax were paid for two purchases.

The Division's Procurement Card Internal Control Policies and Procedures require a supervisor over fleet maintenance to perform the following reviews:

- Review invoices to ensure goods purchased are authorized, received, within the cardholder's purchasing categories, and no sales tax has been charged.
- Review invoices and work orders, ensuring invoices are coded correctly and purchased goods match work order and appear to be goods relevant to the declared repair.
- Perform periodic invoice/work order reviews. This is performed by reconciling the invoice to the work order, then the work order to the database.

Although the purchase card billing statements were adequately supported by invoices reviewed by clerical staff, a supervisor over fleet maintenance did not initial the documents they reviewed related to the propriety of the purchase and repair. According

to management, no documentation was required regarding the performance of these internal control procedures. Without documentation of reviews performed, management does not have reasonable assurance that controls are working as intended.

Recommendation

10. Document the internal control procedures performed when reviewing purchase card transactions related to fleet maintenance and repairs.

Internal Controls Not Always Followed

The Motor Pool has not periodically reviewed its system of internal controls related to fleet management activities to ensure policies and procedures are up-to-date, followed, and controls are working as intended. Not following or monitoring internal control procedures was a contributing factor to most problems identified in this audit.

NRS 353A requires state agencies to establish a system of internal accounting and administrative controls which includes methods to promote efficient operations and encourage adherence to prescribed managerial policies. The elements of this system should include an effective system of internal review to ensure the controls are working as intended.

Recommendation

11. Periodically review the internal controls over fleet management activities to ensure the controls are followed, adequately documented, and working as intended.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Motor Pool Division, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to Motor Pool's fiscal operations. We also reviewed financial reports, budgets, minutes of various legislative committees, and other information describing the activities of the Agency. Furthermore, we documented and assessed Motor Pool's internal controls over vehicle utilization, preventive maintenance, and fuel and purchase card transactions.

To determine if the Motor Pool has administrative controls in place to ensure economical utilization of Motor Pool vehicles, we interviewed Motor Pool staff and surveyed other states. We analyzed vehicle use for the Motor Pool's permanent vehicle assignments for fiscal year 2009 by reviewing mileage reports and calculating the annual mileage. Using auditor judgment, we identified 73 vehicles that could be eliminated or reassigned. Additionally, to evaluate compliance with Motor Pool's preventive maintenance procedures, we randomly selected and tested 80 vehicles and reviewed the maintenance history and work orders for each vehicle.

To evaluate Motor Pool's vehicle replacement policy, we analyzed the age and mileage of 61 vehicles retired in fiscal year 2009 and compared Motor Pool's replacement policy to other states. We analyzed the service life costs of three hybrid vehicles and three conventional gasoline vehicles retired in fiscal year 2009 and calculated the additional miles a hybrid vehicle would need to be driven at February 2010 average gasoline prices.

To determine if the Motor Pool has established internal controls to provide reasonable assurance that fuel card and purchase card purchases are safeguarded against waste, loss, and misuse; we performed detailed tests on fuel card transactions for the months of December 2007, June 2008, December 2008, and June 2009. This included identifying vehicles with multiple fuel purchases from NDOT and the statewide electronic fuel dispensing provider. We calculated the fuel economy for each vehicle

using the monthly mileage reports and identified 16 vehicles with unusually low miles per gallon. Additionally, we requested the Motor Pool to provide an explanation for vehicles with unusually low mileage per gallon.

To evaluate the compliance with purchase card requirements, we judgmentally selected 30 fiscal year 2009 purchases of items that could easily be resold, were of higher value, unusual, or purchased by an individual with less supervisory oversight. We tested each item for proper recording, approval, and compliance with laws regulations, policies, and procedures. We also determined if there was documentation supporting periodic reviews by the supervisory staff.

Our audit work was conducted from February to December 2009. 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 Motor Pool Division. On June 29, 2010, 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 29.

Contributors to this report included:

Jill Silva, CPA
Deputy Legislative Auditor

Rocky Cooper, CPA
Audit Supervisor

Appendix B
Response From the Motor Pool Division

JIM GIBBONS
Governor

STATE OF NEVADA

ANDREW K. CLINGER
Director



KEITH WELLS
Administrator

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July 07, 2010

Paul V. Townsend, CPA
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson St.
Carson City, Nevada 89701

RE: 2009 Motor Pool Audit

Dear Mr. Townsend:

The Motor Pool Division would like to thank you and your staff for conducting your audit in a timely and professional manner. Audits are generally not an experience agencies welcome, however, they are a valuable tool in managing any organization and I value your staff's time and input. Your staff was always pleasant and I enjoyed working with them.

The Motor Pool Division accepts all the recommendations. As I stated in our pre-audit meeting Division staff was aware of several of the areas of concern and solutions for correcting those areas of concern have been implemented.

Recommendation #1: Monitor vehicle utilization in accordance with policies and procedures.

The Division does monitor utilization; however, we have been deficient in documenting those processes and we do recognize our utilization policy as being antiquated. My goal has been to create a statewide utilization policy that will bring greater enforcement mechanisms to the state, policy uniformity, and long-term costs savings to the state as a whole not just to the motor pool.

1

As a result of my testimony during the 2009 Legislative Session, the Department of Administration was tasked through a Letter of Intent with establishing a fleet committee to review all state vehicle policies including utilization.

The fleet committee is currently developing a statewide utilization policy and upon the polices approval by the Board of Examiners the Motor Pool Division will update our policies and procedures to ensure the Division is effectively monitoring utilization, the processes are periodically reviewed, and properly documented.

Recommendation #2: Work with agency financial mangers and the Budget Division to eliminate or reassign unneeded vehicles.

The Division does currently work with our assigned Budget Division analyst to assist in communicating with agencies regarding under utilized vehicles; however, this process has not been properly documented. The Division will update our policies and procedures to ensure future correspondence with agencies and Budget Division staff is properly documented.

Recommendation #3: Develop policies and procedures to ensure vehicles are maintained in accordance with established maintenance schedules.

The Division operates an extensive maintenance program and has good policies in place to address maintenance procedures; however, our personnel policies and procedures did not address this issue adequately, as a result errors occurred. The Division will update our personnel policies to address this concern.

Recommendation #4: Establish a policy to periodically analyze fleet replacement issues, such as extending mileage requirements on hybrids or standard vehicles, to help ensure the Motor Pool's replacement policies are cost effective.

The Division currently performs cost analysis on many facets of the fleet; however, we do not properly document them. The Division will develop policies and procedures to address this concern.

Recommendation 5#: Place hybrid vehicles at high-use agencies to the extent possible.

Policies and procedures will be developed to address this concern.

Recommendation #6: Establish procedures for periodically comparing monthly fuel purchases to the reported monthly mileage to identify improper fuel card use.

Procedures have been developed and are currently in-place.

Recommendation #7: Document the review of improper fuel card use.

Procedures have been developed and are currently in-place.

Recommendation #8: Develop and implement procedures to reasonably ensure drivers restrict the use of fuel cards to the assigned vehicle.

Policies and procedures will be developed to address this concern.

Recommendation #9: Request NDOT to provide odometer readings associate with each fuel transaction.

NDOT has been contacted and we are awaiting a response back.

Recommendation #10: Document the internal control procedures performed when reviewing purchase card transactions related to fleet maintenance and repairs.

Policies and procedures will be developed to address this concern.

Recommendation #11: Periodically review the internal controls over fleet management activities to ensure the controls are followed, adequately documented, and working as intended.

The Division does periodically perform this function; however, it has not been properly documented and it is not specifically addressed in our internal controls. The Division will update our policies and procedures to address this concern.

Sincerely,



Keith Wells, Administrator
Motor Pool Division

cc: Andrew K. Clinger, Director, Department of Administration

Motor Pool Division Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Monitor vehicle utilization in accordance with policies and procedures	<u> X </u>	<u> </u>
2	Work with agency financial managers and the Budget Division to eliminate or reassign unneeded vehicles ...	<u> X </u>	<u> </u>
3	Develop policies and procedures to ensure vehicles are maintained in accordance with established maintenance schedules	<u> X </u>	<u> </u>
4	Establish a policy to periodically analyze fleet replacement issues, such as extending mileage requirements on hybrids or standard vehicles, to help ensure the Motor Pool's replacement policies are cost effective	<u> X </u>	<u> </u>
5	Place hybrid vehicles at high-use agencies to the extent possible	<u> X </u>	<u> </u>
6	Establish procedures for periodically comparing monthly fuel purchases to the reported monthly mileage to identify improper fuel card use	<u> X </u>	<u> </u>
7	Document the review of improper fuel card use	<u> X </u>	<u> </u>
8	Develop and implement procedures to reasonably ensure drivers restrict the use of fuel cards to the assigned vehicle.....	<u> X </u>	<u> </u>
9	Request NDOT to provide odometer readings associated with each fuel transaction.....	<u> X </u>	<u> </u>
10	Document the internal control procedures performed when reviewing purchase card transactions related to fleet maintenance and repairs.....	<u> X </u>	<u> </u>
11	Periodically review the internal controls over fleet management activities to ensure the controls are followed, adequately documented, and working as intended.....	<u> X </u>	<u> </u>
	TOTALS	<u> 11 </u>	<u> 0 </u>