REPORT OF

THE

STATE AUDITOR

Maintenance and Use of State Fleet Vehicles

Performance Audit
January 2005

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Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the maintenance and use of state fleet vehicles. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Personnel & Administration.

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OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

JOANNE HILL, CPA
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Maintenance and Use of State Fleet Vehicles
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Authority, Purpose, and Scope

This performance audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit was conducted from April 2004 through December 2004 in accordance with generally accepted governmental auditing standards. During this audit we evaluated the efficiency and effectiveness of the Department of Personnel & Administration's (Department's) and the State Fleet Management Program's (Fleet Management's) oversight of the State's centralized motor vehicle fleet. We reviewed controls over expenditures, conducted file and document reviews, and evaluated information in the Colorado Automotive Reporting System (CARS), which Fleet Management uses to track the purchase, maintenance, repair, and disposal history of fleet vehicles. The audit scope did not include an evaluation of Fleet Management's practices for acquiring vehicles. We acknowledge the assistance and cooperation extended by the management and staff at Fleet Management and the Department of Personnel & Administration.

Overview

According to statutes, the Department is charged with ensuring the efficient and economical operation of the State's centralized vehicle fleet. The centralized fleet generally includes two- and four-wheel drive trucks, three-quarter ton and smaller, and all passenger vehicles including cars, vans, and other similar vehicles. During Fiscal Year 2004 about 6,000 of the approximately 12,000 registered vehicles owned by the State were in the centralized fleet.

Fleet Management is entirely cash-funded. State agencies with assigned vehicles pay monthly fees to cover Fleet Management's costs for vehicle acquisition, repair and maintenance, and administrative overhead. During Fiscal Year 2005 appropriations for the centralized fleet totaled almost $29.7 million.

Summary of Audit Comments

We examined Fleet Management's controls over repair, maintenance, and fuel costs. We also reviewed Fleet Management's practices for ensuring that agencies comply with established preventive maintenance schedules. Finally, we evaluated the State's compliance with IRS regulations governing the commuting program. We found:

- **Fleet Management lacks basic data for analyzing and monitoring maintenance and repair expenditures.** We found that data contained in the Colorado Automotive Reporting System (CARS) were not reliable for analyzing costs, monitoring utilization, and identifying potential fraud and abuse. More specifically, price data were not accurate and key data fields, such as the quantity purchased, were sometimes left blank. For about 58,400 of 515,000 records (11 percent), quantity times price per unit did not equal the recorded payment amount. Values such as $0.00 and $0.01 were used as placeholders for bundled services, such as when the vendor bills a single dollar amount for labor provided for several different repairs or services. These practices render CARS data useless for cost analysis and substantially limit Fleet Management's ability to evaluate prices, analyze the number and types of services performed, and control costs.

- **Fleet Management performs limited analysis of fuel card transaction data to monitor expenditures for potential fraud and abuse.** The State contracts with a private vendor to operate a fuel card program. Fuel cards work like a credit card and may be used by state employees to purchase fuel and minor maintenance items. Between January and June 2004, CARS recorded just over 157,000 fuel card transactions valued at more than $3 million. We reviewed these fuel card transactions for reasonableness and compliance with Department policies. We identified approximately 800 fleet vehicles per year with low fuel economies (under 10 miles per gallon). The Department needs to investigate these low fuel economies; fuel economies not consistent with the make, model, and use of the vehicle may indicate that some employees are using fuel cards to purchase fuel for their personal use. We also identified $46,400 in transactions that appeared to be questionable, $2,700 in transactions that appeared to be prohibited, and over $212,000 in transactions for super unleaded fuel, which is about $10,400 more than the State would have paid for mid-grade fuel. Mid-grade fuel, not super unleaded fuel, is the fuel grade manufacturers recommend for a large portion of the centralized fleet.

- **Fleet Management's preauthorization requirements are unclear and inconsistent, substantially limiting the effectiveness of this key cost-control measure.** Preauthorizing repairs before the work is performed ensures that the work is necessary, reasonably priced, and cost-effective. We found that of $18.1 million in maintenance and repair expenditures recorded in CARS during Fiscal Years 2002 through 2004, about $15.6 million (86 percent) was preauthorized and $2.5 million (14 percent) was not. Of the $15.6 million in preauthorized expenditures, about $5.2 million was for services costing $100 or less. (It is important to note that, due to problems with the accuracy of price data maintained in CARS, the total dollar value of services costing $100 or less could be somewhat higher or lower.) Some of these low-cost services were for required scheduled maintenance. It may be more efficient for agencies to notify Fleet Management that the required maintenance has been completed, eliminating preauthorization requirements for low-cost purchases and freeing up staff resources for other tasks. We also found that more than half of the almost $900,000 in services over $100 performed by state garages were not preauthorized. We found state garage agreements were confusing and unclear regarding preauthorization requirements. Of 47 state garage agreements, 14 were expired, 3 required preauthorization for all services, 3 required preauthorization for services exceeding $100, and 27 contained outdated provisions related to preauthorization.

- **Fleet Management could do more to secure optimal pricing for maintenance and routine repairs.** Currently Fleet Management only makes use of written price agreements when purchasing tires and auto glass. For other maintenance and repairs, Fleet Management staff rely on national account and fleet menu pricing (i.e., voluntary discounts offered by certain vendors to large-scale purchasers) or negotiation with vendors to obtain reasonable prices. We found that, according to CARS data, Fleet Management obtained national account pricing for only 3,130 of 5,060 oil changes (62 percent) purchased during Fiscal Years 2002 through 2004. In contrast, the General Services Administration (GSA), which manages the vehicle fleet for the federal government, reports that it has established written price agreements with national chains and repair shops and that, in many instances, the GSA is able to obtain lower prices than national account pricing.

- **Fleet Management lacks sufficient controls to ensure that invoices (1) are reviewed and authorized before payment and (2) include adequate supporting documentation to justify the expenditure.** We reviewed 66 invoices and found that 16 (24 percent) were paid without documented evidence of review or authorization. We also identified over 2,000 instances where the same good or service was recorded as purchased two or more times. Payments for these potential duplicate purchases totaled over $33,500. Additionally, we found that Fleet Management is paying invoices that do not contain information required by statutes, such as the customer name and address, vehicle make and model, vehicle license plate number, odometer reading, and date of repair. Flags to identify potential duplicates and complete invoice information are important controls for verifying that billed services were actually provided and for minimizing errors and irregularities.

- **Over 50 percent of fleet vehicles are not receiving timely preventive maintenance.** Department rules require that fleet vehicles be maintained in accordance with preventive maintenance schedules developed by Fleet Management. We reviewed preventive maintenance work for a sample of 100 fleet vehicles and found that for Fiscal Years 2002 through 2004, 58 of these vehicles missed, on average, four required maintenance services. Additionally, for the approximately 1,100 required maintenance services that these vehicles should have received over the three-year period, about 570 services were performed late. On average, these services were overdue by about 50 percent. This means that if a service is due at 5,000 miles and it is overdue by 50 percent, the service is overdue by 2,500 miles.

- **The Department needs to seek legal advice concerning the rules and policies governing the State's commuting program.** Statutes allow state employees to commute to work using a state-owned vehicle when authorized by the employee's Executive Director. About 850 (14 percent) of the approximately 6,000 fleet vehicles are being used for commuting. IRS regulations classify commuting in a state-owned vehicle as a taxable fringe benefit. Therefore, unless exempt under IRS regulations, employees who commute must either reimburse the State at a rate of $60 per month or have the value of their personal commuting included in their taxable income. According to a survey conducted by Fleet Management, about 17 percent of commuters stated that they reimburse the State, about 80 percent of commuters reported that they were classified as exempt, and about 3 percent of commuters did not provide information on whether they were reimbursing the State or were classified as exempt. We found that over half of the employees we sampled did not appear to qualify for an exemption from commuting reimbursement according to IRS regulations. This could result in lost revenue for the State and potential tax liabilities for both the employee and the State. We also found that Fleet Management did not have accurate and up-to-date information on employees commuting in state-owned vehicles. In addition, Fleet Management was not reviewing commuting applications to ensure that employees were appropriately authorized to commute, as required by statutes. Finally, we question whether the commuting program is in the best interest of the State. Employees who do reimburse the State for commuting pay only about 40 percent of their total commuting cost.

- **The Department needs to strengthen accountability and enforcement mechanisms for the centralized fleet.** Our audit found that state agencies are not held sufficiently accountable for complying with Department rules and policies governing preventive maintenance, fuel card use, verification of CARS data, and commuting authorizations. We also found that about half of the State's vehicles (about 6,000 vehicles) are maintained outside of the centralized fleet. This number is expected to increase in the future, since statutes now authorize institutions of higher education to maintain their own vehicle fleets. The Department needs to establish written agreements with agency Executive Directors; conduct periodic, on-site, risk-based reviews of state agencies to ensure compliance with Department rules and policies; and develop and enforce a system of incremental penalties and fees for repeated violations of rules governing state vehicles. In addition, the Department should work with the General Assembly to clarify the types of vehicles that should be included in and excluded from the centralized fleet.

Our recommendations and the responses of the Department of Personnel & Administration can be found in the Recommendation Locator and in the body of this report.

RECOMMENDATION LOCATOR
All recommendations are addressed to the Department of Personnel and Administration

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	16	Control the costs of maintenance and repair services by improving the usefulness and reliability of CARS price data and analyzing the prices paid for parts, maintenance, and repairs on an ongoing basis.	Partially Agree	Ongoing
2	22	Increase monitoring of fuel card purchases and expenditures to ensure that fuel cards are used in accordance with policies and to minimize the potential for fraud and abuse.	Partially Agree	July 2005
3	25	Improve controls and clarify rules related to preauthorization by identifying the specific types of maintenance and repair services that must be preauthorized, establishing reasonable dollar thresholds for preauthorization, and requiring both private vendors and state garages to comply with preauthorization requirements.	Partially Agree	August 2005
4	28	Work with the State Purchasing Office to identify appropriate purchasing mechanisms for obtaining economical pricing for parts, supplies, and maintenance and repair services.	Agree	Ongoing
5	31	Improve controls over review and payment of invoices by documenting review of all transactions that are flagged in CARS or are not preauthorized, establishing a control in CARS to identify and flag potential duplicate parts and labor codes, requiring vendor invoices to be complete and in compliance with statutory requirements before payment, and eliminating the CARS system default function that automatically populates the odometer field.	Partially Agree	January 2006
6	33	Analyze fuel card transaction data and determine appropriate fuel card transaction limits to reduce the opportunity for fraudulent transactions.	Agree	July 2005
7	36	Analyze cost data to develop a reasonable basis for maintenance schedules, enhance the tickler system notifying agencies when their fleet vehicles are coming due or are overdue for maintenance services, and establish an escalated schedule of penalties and fees for repeatedly failing to maintain fleet vehicles in accordance with required maintenance schedules.	Agree	January 2007

RECOMMENDATION LOCATOR

All recommendations are addressed to the Department of Personnel and Administration

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
8	39	Implement proper controls and auction procedures to ensure that used, state-owned vehicles are sold in compliance with statutory and regulatory requirements.	Agree	Ongoing
9	44	Seek legal advice from the Office of the Attorney General to ensure that current practices for exempting employees from reimbursing for commuting comply with IRS regulations.	Partially Agree	June 2005
10	46	Ensure the *Commuting Authorization Form* complies with IRS regulations and that the forms are complete and have been signed by the agency Executive Director, require agencies to submit the updated forms annually, and reconcile monthly to ensure that reimbursements are deducted properly.	Partially Agree	July 2005
11	49	Conduct a comprehensive assessment of the commuting program to determine if there is still a need for the program and whether the program is cost-effective for the State. If the program continues, strengthen controls and monitoring procedures to ensure compliance with state and federal requirements.	Partially Agree	Ongoing
12	52	Work with the State Controller to develop a method for conducting a physical inventory of the centralized vehicle fleet.	Partially Agree	February 2005
13	53	Discontinue processing and paying for car washes for vehicles in the centralized fleet.	Agree	July 2005
14	55	Strengthen accountability and enforcement mechanisms by establishing written agreements with agency Executive Directors, providing periodic reports to state agencies and requiring state agencies to certify data accuracy, conducting periodic on-site, risk-based, reviews of state agencies, developing a system of incremental penalties and fees for repeated violation of rules governing state vehicles, and working with the General Assembly to clarify the types of vehicles included in and excluded from the centralized fleet.	Partially Agree	January 2006

Description of the State Fleet Management Program

Introduction

The State Fleet Management Program (Fleet Management) within the Division of Central Services (Division) at the Department of Personnel & Administration (Department) manages and oversees the State's centralized motor vehicle fleet. The main purpose of Fleet Management is to centralize functions related to motor vehicles, including acquisition, maintenance, repair, fuel purchases, utilization management, disposition, and reporting, to realize significant dollar savings for the State. Fleet Management also operates the Capitol Complex Motor Pool, which provides vehicles to state employees who occasionally need a car to conduct state business.

Statutory Framework

Effective July 1, 1992, statutes require the State's centralized fleet to include all two- and four-wheel drive trucks, three-quarter ton and smaller, and all passenger vehicles including cars, vans, and other similar vehicles purchased within the State's executive branch. Statutes also require that the Department:

- Adopt uniform rules for motor vehicle acquisition, operation, maintenance, repair, and disposal standards.

- Maintain, store, repair, dispose of, and replace state-owned motor vehicles under the control of the Department and ensure that state-owned motor vehicles not be routinely replaced until they meet criteria relating to mileage, cost, safety, and other relevant factors.

- Establish and maintain a centralized recordkeeping system for the acquisition, operation, maintenance, repair, and disposal of all motor vehicles in the fleet.

- Assign suitable transportation to any state agency showing proper need.

- Allocate and charge each state agency a variable rate that is proportionate to the agency's costs for maintaining and operating vehicles.

- Enforce such rules and regulations adopted by the Executive Director of the Department.

- Delegate or conditionally delegate to Executive Directors of agencies that have permanently assigned vehicles such duties as may be necessary to enforce all or part of the rules and regulations governing the centralized fleet.

According to data provided by the Department, there were about 6,000 vehicles in the State's fleet during Fiscal Year 2004. This includes the majority of Colorado State Patrol vehicles and passenger vehicles used by large numbers of state employees, such as oil and gas inspectors, Lottery sales representatives, higher education instructors, parole officers, and social services case managers. Additionally, some fleet vehicles are permanently assigned, primarily by higher education institutions, to locations outside Colorado.

The Department's centralized fleet represents about half of the approximately 12,000 state-owned vehicles registered to the State of Colorado. Statutes exempt certain state vehicles, including trucks and vans with weights exceeding three-quarter ton and non-passenger vehicles, from the centralized fleet. The number of vehicles outside the State's centralized fleet will likely increase due to the passage of House Bill 1009 during the 2004 Legislative Session. This bill authorizes higher education institutions to establish and maintain their own vehicle fleets. Currently about 1,260 vehicles, or about 21 percent of the State's centralized fleet, are permanently assigned to higher education institutions.

State Fleet Management Program

Fleet Management oversees and manages the day-to-day operations of the centralized fleet. Fleet Management is organized into the following units:

- **Operations Unit.** This unit oversees the acquisition, registration, and licensing of new vehicles. It also maintains the vehicle inventory, bills state agencies for the use of fleet vehicles, pays all repair and maintenance invoices, and disposes of vehicles that are no longer needed through public auctions. In addition, the unit operates the State's fuel card program and oversees the commuting program.

- **Authorizations Unit.** This unit authorizes repairs and maintenance for fleet vehicles permanently assigned to agencies and operates the Capitol Complex Motor Pool. Most of its employees are Automotive Service Excellence (ASE)-certified and respond to calls from drivers and vendors approving or denying services on fleet vehicles. Employees in this unit also evaluate vehicles to determine when disposal is the best alternative and handle all accident-related repairs.

- **Information Technology Unit.** This unit oversees and supports an automotive information system known as the Colorado Automotive Reporting System (CARS). The purpose of CARS is to track and manage information on all vehicles in the centralized fleet from acquisition through disposal.

Funding

For Fiscal Year 2005, Fleet Management was appropriated almost $29.7 million and 16 full-time equivalent (FTE) employees. The following table shows Fleet Management's appropriations for Fiscal Years 2002 through 2005.

State Fleet Management Program Appropriations
Fiscal Years 2002 - 2005

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Percent Change Fiscal Years 2002-2005
Cash Funds[1]	$2,776,772	$2,711,581	$2,134,301	$2,142,180	-22.9%
Cash Funds Exempt[2]	$26,016,503	$25,880,341	$26,731,153	$27,528,795	5.8%
Total Cash Funds	$28,793,275	$28,591,922	$28,865,454	$29,670,975	3.0%
FTE	17	16	16	16	-5.9%

Sources: Colorado Financial Reporting System, House Bill 02-1432, Senate Bill 03-213, House Bill 04-1330, House Bill 04-1422.

[1] Cash funds are from user fees from enterprises, including the Division of Wildlife, Colorado State Lottery, and Colorado Correctional Industries, and include proceeds from disposal sales.

[2] Cash funds exempt are from user fees from state agencies and include monthly vehicle payments.

Fleet Management is entirely cash-funded. Fleet Management bills agencies on a monthly basis to cover the cost of acquisition, maintenance, and administration. Agencies pay two types of fees for each fleet vehicle assigned to them:

- **Fixed fees** cover the costs of leased vehicles and Fleet Management's administrative overhead. Fixed fees include the monthly lease purchase installment payments used to finance the purchase of new vehicles. Fleet Management charges fixed fees of $14.50 per vehicle to recover program administration expenses, including payroll, building rent, computer support, and statewide indirect and division overhead. The Division of Wildlife, University of Colorado at Boulder, and Colorado State University pay a $25 per vehicle management fee in exchange for retaining their proceeds on auctioned vehicles.

- **Variable cost fees** cover the actual costs of operating each vehicle. These fees capture expenses for repairs, maintenance, fuel, and accidents. Fees are a fixed per mile rate but are variable based upon the number of monthly miles traveled. The variable fees differ by agency and vehicle body type. Fleet Management calculates the variable fee by combining the total costs of fuel, maintenance, repairs, and accidents for a particular body type at each agency and divides by the total miles driven by those vehicles. The final portion of the variable rate is for the accident pool, which represents a "pooled risk" rate covering comprehensive and collision damages to vehicles.

The table below shows that in Fiscal Year 2004 about $13.9 million, or approximately half of Fleet Management's total expenditures, were for replacing fleet vehicles. Remaining expenditures cover operating costs, such as fuel and maintenance, and personal services.

State Fleet Management Program Expenditures
Fiscal Years 2001 - 2004

	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Percent Change Fiscal Years 2001-2004
Personal Services	$823,873	$761,506	$873,353	$846,083	2.7 %
Operating Expenses	$11,944,258	$11,739,986	$12,568,668	$13,447,568	12.6%
Vehicle Lease Purchase	$15,061,235	$15,183,592	$14,496,490	$13,888,890	-7.8%
Total	$27,829,366	$27,685,084	$27,938,511	$28,182,541	1.3%

Source: Expenditure information from Colorado Financial Reporting System (COFRS).

Audit Scope and Methodology

Our audit reviewed Fleet Management's oversight of the State's centralized motor vehicle fleet. We reviewed controls over expenditures and evaluated the information in the Colorado Automotive Reporting System (CARS), which Fleet Management uses to track the purchase, maintenance, repair, and disposal history of fleet vehicles. We also reviewed the maintenance history for a statistical sample of fleet vehicles to determine if they are being maintained in compliance with Fleet Management's maintenance schedules. We also examined Fleet Management's controls for ensuring that it pays only for repairs and maintenance that were actually received and needed. Additionally, we reviewed controls over fuel card expenditures, Fleet Management's oversight of the State's commuting program, and compliance with statutory requirements for disposing of fleet vehicles. Finally, we surveyed state agencies to obtain information on the number and types of state-owned motor vehicles maintained outside of the centralized fleet and the number and types of state commuters. Our audit scope did not include an evaluation of Fleet Management's practices for acquiring vehicles.

Controls Over Expenditures

Chapter 1

Introduction

The Department of Personnel & Administration (Department), through its Division of Central Services, is charged by statute to ensure the efficient and economical operation of the State's centralized vehicle fleet. Section 24-30-1104(2)(a), C.R.S., states that the Department shall:

> Establish and operate a central state motor vehicle fleet system and such subsidiary-related facilities as are necessary to provide for the efficient and economical use of state-owned motor vehicles by state officers and employees.

The State spends, on average, about $6.4 million annually maintaining and repairing approximately 6,000 centralized fleet vehicles. As a result, controlling the cost of repair and maintenance of the State's centralized fleet is one of Fleet Management's key responsibilities.

We reviewed Fleet Management's controls to ensure that costs are contained. The controls we reviewed included:

- Review and analysis of repair, maintenance, and fuel card expenditures.
- Preauthorization of expenditures.
- Development of standard price agreements.
- Review of invoices prior to payment.
- Fuel card transaction limits.

Overall, we found that these controls need to be strengthened and improved, as discussed in the remainder of this chapter.

Review and Analysis of Expenditures

One of Fleet Management's primary tools for controlling expenditures is review and analysis of data contained in the Colorado Automotive Reporting System (CARS). CARS is an automated recordkeeping system for tracking the acquisition, maintenance, repair, and disposal of all vehicles in the fleet. We found that Fleet

Management needs to improve the accuracy and reliability of CARS data to evaluate prices and control the costs of vehicle maintenance and repairs.

We reviewed CARS data for six types of maintenance services purchased during Fiscal Years 2002 through 2004. We found substantial variations in the prices listed as paid in CARS, raising concerns about the accuracy, reliability, and validity of the price data. We display variations in the values representing prices paid for each of the six services in the table below. In the transmission service category, the values contained in CARS range from $1 to $3,103. Similarly, in the brake inspection category, the values contained in CARS vary from $0.50 to $680.

State Fleet Management Program
CARS Values for Six Maintenance Services
Fiscal Years 2002 - 2004

Part/Service	Sum of Payment Values	Lowest Value	Median Value	Highest Value
Fuel Filter	$92,647	$0.30	$18.00	$213.00
Brake Inspection	$914,640	$0.50	$31.28	$680.00
Oil Change	$1,303,976	$0.25	$27.70	$609.00
Transmission Service	$740,582	$1.00	$83.11	$3,103.00
Engine Coolant Flush	$263,539	$0.50	$59.99	$974.00
Tune-Up / Spark Plugs	$124,738	$0.60	$32.00	$521.00
Total	**$3,440,122**			

Source: Office of the State Auditor's analysis of information contained in the Colorado Automotive Reporting System (CARS).

We reviewed a sample of 25 work orders and their corresponding invoices against CARS data to identify the reasons for the variations we observed. First, we found that data on the prices paid for services, based on information on the payment invoice, were sometimes entered into CARS incorrectly. We also found that key data fields were missing information and were used inconsistently. For about 58,400 of 515,000 records (11 percent), quantity times the price per unit did not equal the recorded payment amount as detailed in CARS. For about 4,100 records, either the quantity field and/or the price per unit field was blank. While this is less than 1 percent of the records, it indicates a lack of system controls.

Second, we found that Fleet Management sometimes uses the value $0.00 as a placeholder for bundled services. In other words, when Fleet Management is billed a single dollar amount for labor for several different services, the full amount of labor dollars billed may be entered under one type of service category and $0.00 entered in the other service categories. In other instances, Fleet Management may use $0.00 value to indicate service performed under warranty or at no charge. Additionally, Fleet Management staff reported that the value $0.01 is also used as a placeholder. These practices render the data useless for cost analysis. About 24,600 (5 percent) of the approximately 515,000 individual transactions recorded in the CARS database have either a $0.00 or $0.01 value.

Third, we found that, in some instances, Fleet Management uses the same labor code to record different types of services in CARS. Fleet Management staff reported that until recently the codes used for five of the six maintenance parts or services displayed in the previous table were also used to designate the cost of labor to make repairs to a vehicle. For example, Fleet Management used the code for "transmission services" to record both routine transmission flushes, a relatively inexpensive maintenance service, and the cost of labor to actually replace a transmission, an expensive repair service that occurs infrequently. As a result, CARS values for transmission service range from $1 to $3,103. Similarly, Fleet Management records both spark plugs (a vehicle part) and engine tune-ups (a vehicle maintenance service) under the code for "spark plugs." Payment values for "spark plugs" ranged from $0.60 to over $500. During our audit Fleet Management began establishing separate codes in CARS for routine maintenance services and certain types of repair labor.

Finally, we found that the standardized reports produced by CARS are not as useful as they could be for conducting detailed analysis of expenditures and utilization. Fleet Management staff indicate that they would like to be able to select data variables applicable to specific work units and produce standardized reports to analyze those variables. Currently Fleet Management does not have the staff expertise internally to make improvements to CARS' reporting capabilities. When CARS improvements are needed, Fleet Management must request assistance from the Department. The Department has assigned one staff person, who, in addition to other duties, maintains the CARS database and handles CARS upgrades along with other Department priorities.

Fleet Management needs to improve the quality of data maintained in CARS so that the information can be used to evaluate prices, analyze the number and types of services performed, and control costs. In particular, Fleet Management needs to develop protocols for recording data accurately and ensure that key data fields, including quantity and price per unit, contain complete information and are used consistently. Further, Fleet Management needs to develop discrete categories for high-volume services such as maintenance and other services that, due to price variations or other concerns, Fleet Management determines require more scrutiny. Additionally, Fleet Management should ensure that high-volume parts are recorded separately from maintenance services and that maintenance services have different CARS codes than those used for repair labor. Fleet Management should also attempt, where reasonable, to allocate lump dollar amounts for items such as labor into the appropriate service categories. Where placeholders are needed because a dollar amount cannot reasonably be assigned, a unique character, rather than a dollar amount such as $0.00 or $0.01, should be used. Finally, Fleet Management should work with the Department to assess its information technology needs. This should include working with information technology staff to improve data mining and reporting capabilities within CARS.

Once CARS data are reliable, Fleet Management should analyze CARS price, expenditure, and utilization data periodically, focusing on high-volume categories with large variations, to evaluate whether it is purchasing services at optimal prices. Ongoing review of service and repair costs is key to "ensuring the efficient and economical operation of the State's centralized vehicle fleet," which is Fleet Management's statutory charge.

Recommendation No. 1:

The State Fleet Management Program should ensure it has useful and reliable information for reviewing expenditures and controlling the costs of maintenance and repair services. This should include:

a. Developing protocols for recording data consistently and accurately.

b. Developing discrete categories for capturing CARS unit-of-service data for high-volume vehicle maintenance services and parts.

c. Working with the Department of Personnel & Administration to assess Fleet Management's information technology needs and to create standardized reports that work units can use for data mining, analysis, and reporting of CARS data.

d. Analyzing the prices paid for parts, maintenance, and repairs on an ongoing basis.

Department of Personnel & Administration Response:

Partially agree. Implementation Date: Ongoing. We believe the CARS system is a robust data repository that manages approximately 5,500 vehicles and fulfills the needs of a fleet management system. Sound fleet management practices require data analysis at a higher aggregate level and CARS is an excellent source for this kind of information. In addition, the call center technicians review individual transaction data at a detailed level, which ensures SFM is able to control the costs of vehicle maintenance and repairs. The level of detailed analysis of specific maintenance work suggested by the Office of the State Auditor is not practical with our current staff when managing approximately 5,500 vehicles.

We agree that formalizing and standardizing data entry in CARS could be of some value. In addition, we agree that additional standardized reports and ad hoc data mining would be valuable. We continue to work with the Information Technology Unit (ITU) to improve CARS data mining capabilities. However, given recent general fund reductions, this unit has limited resources to allocate for this purpose. CARS is prioritized against other statewide information systems, including COFRS, Payroll, EMPL, and the Financial Data Warehouse.

The Department is proud of the improvements made to this program over the past several years and the exceptional customer service and value we provide to the citizens of Colorado.

Auditor Addendum:

This audit identified serious problems with the accuracy of individual transaction data in CARS. Although Fleet Management staff enter individual transaction data for private garages and report that they review CARS transactions at a detailed level, significant numbers of errors go uncorrected. Data entry and transaction review are of limited value if the resulting data are inaccurate for basic analysis.

Analysis of Fuel Card Transactions

The State contracts with a private vendor to operate a fuel card program. Fuel cards work like a credit card and may be used by state employees to purchase fuel and minor maintenance items. The fuel card program also provides Fleet Management with centralized, detailed data about fuel card purchases and transactions, which Fleet Management can analyze to identify potential cost savings or to detect fraudulent activity. In total, CARS data indicate that just over 157,000 transactions valued at more than $3 million were processed with fuel cards during the last six months of Fiscal Year 2004.

We reviewed the controls in place over fuel card expenditures using fuel card transaction data maintained in CARS. We found that Fleet Management performs limited analysis using vehicle fuel transaction data to monitor expenditures. As stated previously, we identified problems with the accuracy and reliability of CARS data throughout this audit. Although we qualify our reporting of CARS data, CARS remains the only available data source for analyzing fuel card transactions and monitoring fraud and abuse. We discuss controls in three areas – vehicle fuel economy, questionable transactions, and miscoded transactions – in the following sections.

Fuel Economy

Monitoring fuel economy (i.e., the miles driven per gallon of fuel purchased) is an important control to detect fraud or misuse of fuel cards. A low fuel economy inconsistent with the make, model, and use of the vehicle may indicate that an employee is using the fuel card to purchase fuel for his or her own vehicle.

We compared the reported annual mileage for fleet vehicles over the last three fiscal years with the quantity of fuel purchased to determine whether fuel consumption, and resulting fuel economies, appeared reasonable. We display the results in the following table.

State Fleet Management Fuel Card Program Analysis of Fleet Vehicle Fuel Economy Fiscal Years 2002 - 2004			
Miles per Gallon	**Fiscal Year 2002**	**Fiscal Year 2003**	**Fiscal Year 2004**
Over 30	279 vehicles (4.4%)	236 vehicles (3.8%)	267 vehicles (4.5%)
Between 20 and 30	1,600 vehicles (25.0%)	1,436 vehicles (23.3%)	1,358 vehicles (22.8%)
Between 10 and 20	3,648 vehicles (57.1%)	3,607 vehicles (58.5%)	3,547 vehicles (59.7%)
Up to 10	863 vehicles (13.5%)	887 vehicles (14.4%)	770 vehicles (13.0%)

Source: Office of the State Auditor's analysis of fuel and mileage data for all vehicles with recorded fuel purchases from Fiscal Years 2002-2004 provided by the State Fleet Management Program.

According to CARS data, more than 25 percent of vehicles in the fleet consistently average more than 20 miles per gallon. Almost 60 percent of fleet vehicles have fuel economies between 10 and 20 miles per gallon, and about 13 to 14 percent of the fleet vehicles average less than 10 miles per gallon.

More analysis is needed to determine whether these fuel economies are reasonable on the basis of make, model, and use of the vehicle. In particular, fuel economies less than 10 miles per gallon may indicate fraud or abuse since employees may be purchasing fuel for their personal use. However, fuel economies between 10 and 20 miles per gallon may also be of concern if the make, model, and use of the vehicle in question typically has higher fuel economy. We provided the Department with fuel economy data for further investigation. The Department needs to monitor fuel economies on an ongoing basis to ensure fuel cards are used appropriately and to detect potential misuse.

Questionable Transactions

Monitoring the types of fuel card transactions is another important control to ensure that fuel cards are only used to purchase authorized items. The *State Fleet Management Vehicle Operator's Manual (Manual)* and Department rules limit fuel card purchases to fuel and other minor maintenance items. Both the Department's rules and the *Manual* restrict fuel purchases to self-service, regular grade gasoline unless the manufacturer specifically requires the use of a premium grade fuel. The *Manual* defines minor maintenance items as merchandise available for purchase at the pump island. Minor maintenance items include car washes, quarts of oil (but not oil changes), and washer fluid.

We reviewed just over 157,000 fuel card transactions occurring between January and June 2004. We identified over 19,000 transactions (about 12 percent) that appeared to be either questionable or prohibited by the Department's *Manual* or rules. Together, these transactions totaled almost $60,000 for the six-month period we reviewed, or nearly $120,000 annually. This represents approximately 2 percent of total Fiscal Year 2004 fuel card expenditures of about $6.1 million. More specifically, we identified:

- **Transactions that were questionable.** We identified just over 8,300 transactions totaling about $46,400 for items or services that, due to insufficient information in the CARS database and information provided by the vendor, could not be verified as authorized according to the *Manual* and Department rules. These included transactions coded as "other" and transactions coded as "repairs."

- **Purchases for super unleaded fuel.** As stated previously, the Department's rules and the *Manual* prohibit purchase of premium fuel grades unless specifically required by the vehicle manufacturer. We identified about 11,000 transactions during the six-month period totaling over $212,000 for super unleaded fuel. This is $10,400 more than the State would have paid for mid-grade fuel and $24,400 more than regular unleaded fuel. Since mid-grade unleaded fuel, and not super unleaded fuel, is recommended for a large portion of the vehicles in the centralized fleet, Fleet Management needs to investigate manufacturer requirements for these vehicles to determine whether these super unleaded fuel purchases are authorized.

- **Prohibited transactions.** We identified 173 transactions valued at $2,700 that were clearly prohibited by the *Manual* or Department rules. Of this amount, about $2,300 was for items such as oil changes, parts, service, and inspections, and almost $400 was for food. According to the *Manual*, these items should not be purchased with fuel cards.

To ensure that fuel cards are used only for authorized purchases, Fleet Management should routinely monitor and analyze fuel card transaction data to identify purchases that are questionable or prohibited by Fleet Management policies. This should include identifying and monitoring recommended fuel grades to ensure that super unleaded fuel is purchased only for vehicles that actually need it. Questionable and unauthorized purchases should be reported to agency Vehicle Coordinators on a regular basis. Agencies should be required to investigate and resolve the issues in question, and notify Fleet Management of the results. If problems are confirmed, Fleet Management should take appropriate action including reporting findings to Executive Directors and seeking reimbursement for unauthorized purchases.

Coding Errors

Fleet Management's ability to monitor fuel card transactions for fraud and misuse depends on the accuracy of the fuel card transaction data. Fuel card transaction data are maintained in an electronic database by the fuel card vendor. According to the fuel card vendor, 99 percent of all transaction data are captured electronically. Product and transaction code information is provided by the merchant where the transaction occurred.

During our audit we identified approximately 10,000 of 157,000 transactions (6 percent) that were listed as invalid according to the CARS database due to coding errors. According to Fleet Management, staff began noticing coding errors in the transaction data maintained by the fuel card vendor in early 2003. For example, Fleet Management noticed that diesel fuel transactions were processed on fuel cards assigned to vehicles that use unleaded fuel. When unleaded fuel transactions are miscoded as diesel fuel, the State loses fuel tax rebates. Since fuel tax rebates for unleaded fuel are $0.22 per gallon for unleaded fuel compared with $0.205 per gallon for diesel fuel, miscoded unleaded fuel transactions can result in loss of fuel tax rebates of $0.015 per gallon.

To address coding errors, Fleet Management implemented a control to flag atypical transactions, such as the diesel fuel transactions just discussed. Fleet Management reviews these flagged transactions and submits a list of coding errors to the fuel card vendor each month for correction.

Identifying coding errors in the fuel card transaction database requires scarce staff resources that could be used more effectively for analyzing and monitoring fuel card transaction patterns and unauthorized purchases. Fleet Management should work with the fuel card vendor to identify and reduce coding errors. However, if problems continue, Fleet Management should either seek to amend its contract with the fuel card vendor to prevent the State from being liable for miscoded or inaccurate transactions, or cancel the contract and explore options for using other fuel card vendors that have sufficient controls in place to address and prevent coding errors.

Recommendation No. 2:

The State Fleet Management Program should increase its monitoring of fuel card purchases and expenditures to ensure cards are used in accordance with policies and to minimize the potential for fraud and abuse. Specifically, Fleet Management should:

a. Perform routine analysis of fuel transaction data, specifically reviewing the appropriateness of transactions and fuel economy statistics. This should include working with the fuel card vendor to flag fuel grade purchases that are not in accordance with manufacturer recommendations.

b. Report questionable and prohibited transactions to agency Vehicle Coordinators, and require agencies to investigate those transactions, sign off on their review, and report back to Fleet Management staff any findings. Transactions that are confirmed to be prohibited should be reported to agency Executive Directors.

c. Require state agencies to reimburse for any transactions that are determined to be prohibited according to Department rules and Fleet Management policies.

d. Work with the fuel card vendor to reduce coding errors, including transactions that are coded as "other" or "miscellaneous." If problems continue, Fleet Management should either amend the current contract to prevent the State from being liable for transactions that are miscoded or cancel its contract and explore options for contracting with other fuel card vendors that have sufficient controls to prevent coding errors.

Department of Personnel & Administration Response:

a. Partially agree. Implementation Date: July 1, 2005. SFM believes the fuel card should be used for fuel grade purchases that are in accordance with both manufacturer recommendations and SFM rules. We agree SFM could be more proactive in reviewing and analyzing fuel data. However, this has not been implemented to the fullest extent given resource constraints. As practical we will endeavor to expand this analysis. It should be noted that CARS currently provides information at the vehicle level to all agencies broken out by maintenance and fuel cost and cost per mile (CPM).

b. Partially agree. Implementation Date: Ongoing. We believe the questionable transactions are likely due to coding errors at the merchant level and thus, may not represent inappropriate purchases. Further, the purchase of higher-grade fuel while discouraged on a regular basis is beneficial to the vehicle on a periodic basis. We agree our present rules do not provide for this occasional and beneficial practice, and we will evaluate the need for rules changes accordingly.

   SFM believes its efforts should be directed to the area of prohibited transactions ($2,700 out of approximately $3,000,000 fuel card expenditures for six months). Of note however, $2,300 was for items such as oil changes, parts, service, and inspections that are legitimate purchases, which simply should have been paid with a different payment mechanism.

   We will work to develop an appropriate process that provides value without adding unnecessary bureaucratic burden in a manner that balances the cost and benefit.

c. Agree. Implementation Date: Ongoing. This process has been in place for numerous years and SFM will continue with this existing practice.

d. Partially agree. Implementation Date: Ongoing. This issue is more a retail fuel industry issue, not an issue related to the practices of the State's current fuel card vendor or any other available vendor. Neither SFM nor the vendor can ensure that the busy employees of the gas stations will fully code all purchases and not simply check the "other" box. SFM already works aggressively on this issue. In fact, SFM personnel have already met with the Treasury Department of the United States, the Internal Revenue Service and the Colorado Department of Revenue and provided them with information regarding industry fuel coding problems. In addition, SFM continually works with the fuel card vendor to address coding accuracy issues.

Preauthorization of Expenditures

As noted earlier, a key function of Fleet Management is to manage and control the costs of maintaining the State's fleet. One way to control costs is to preauthorize maintenance and repairs before the work is performed. Preauthorization ensures that potential maintenance and repair work is necessary, reasonably priced, and cost-effective. Preauthorization also serves as an important payment control, since preauthorized services can be compared with billed services to make sure invoices are accurate and reflect only the services Fleet Management intended to purchase. Other large fleet operations use preauthorization to control expenditures. Staff at the federal General Services Administration (GSA), which manages the vehicle fleet for the federal government, report that the GSA requires preauthorization for all services performed by any garage if the service will exceed $100. The GSA also requires preauthorization for all tires, batteries, and auto glass regardless of cost.

We reviewed Fleet Management's controls over preauthorization of maintenance and repair expenditures using CARS data. Of $18.1 million in maintenance and repair expenditures reported in CARS during Fiscal Years 2002 through 2004, about $15.6 million (86 percent) was preauthorized and $2.5 million (14 percent) was not. (These expenditures did not include about $1.6 million in maintenance and repair expenditures billed by the University of Colorado at Boulder (UCB) and the Colorado State Patrol (CSP), which have written delegation agreements with the Department allowing UCB and CSP to authorize their own maintenance and repairs). Further, we found that Fleet Management's guidelines and practices for preauthorizing services are inconsistent and substantially limit the effectiveness of the preauthorization control. We found problems in the following areas:

- **Preauthorizing services costing $100 or less.** We found that of the $15.6 million in services reported as preauthorized in CARS, about $5.2 million, or about one-third, was for services costing $100 or less. (It is important to note that, due to problems with the accuracy of price data maintained in CARS, the total dollar value of services costing $100 or less could be somewhat higher or lower.) It may not be cost-effective to preauthorize all of these low-cost services. As mentioned previously, the GSA does not require preauthorization for services less than $100 except for tires, batteries, and auto glass. Some of the lower-cost purchases we reviewed were for scheduled maintenance. Since agencies are required to service their vehicles in accordance with each vehicle's prescribed maintenance schedule, it may be more efficient for agencies to notify Fleet Management that the required maintenance has been completed, including the type of service, date, and vehicle odometer reading, so that Fleet Management can record the information into CARS and ensure vehicle maintenance records are up-to-date. Eliminating preauthorization for scheduled maintenance and other lower-cost purchases would free up Fleet Management resources for other tasks, including reviewing and analyzing CARS and fuel card expenditure data, as discussed previously, and increasing monitoring of agencies, as discussed in Chapter 4 of this report.

- **Preauthorizing services over $100 performed by state garages.** We found that according to CARS, more than half of the almost $900,000 in services over $100 performed by state garages were not preauthorized. In contrast only four percent of the $10.5 million in services over $100 performed by private garages were not preauthorized. Department rules and state garage agreements (executed between the state garage and the Department) are confusing and unclear regarding preauthorization requirements for state garages. We found that of the 47 state garage agreements maintained in the active file, 14 had expired. Of the remaining 33 garages with active garage agreements, 3 agreements required preauthorization for all services, 3 agreements required preauthorization for services exceeding $100, and 27 agreements contained outdated provisions related to preauthorization.

Preauthorization is a good business practice and an effective control over expenditures. To ensure preauthorization controls are applied appropriately and consistently, Fleet Management should establish reasonable dollar thresholds for preauthorizing services and clarify the types of services that must be preauthorized by both private vendors and state garages. In particular, Fleet Management should consider eliminating preauthorization requirements for scheduled maintenance services, requiring agencies to provide notification of completed maintenance to Fleet Management instead. Further, Fleet Management should identify the parts and repairs that should always require preauthorization, regardless of the dollar amount. For example, Fleet Management may want to control timing and expenditures for replacing auto glass, tires, and batteries by consistently requiring these services to be preauthorized.

Finally, Fleet Management should update and clarify its rules concerning preauthorization. Once requirements are clarified, Fleet Management should work with the Department to address vendors who repeatedly fail to obtain preauthorization for work on fleet vehicles. One option would be to inform state agencies not to use these vendors when servicing their vehicles. If agencies continue to use vendors that do not comply with the Department's preauthorization requirements, the Department could bill the state agency for all work performed without preauthorization. This option is permitted under current Department rules.

Recommendation No. 3:

The State Fleet Management Program should improve its controls over repair and maintenance costs by:

a. Identifying the specific types of maintenance and repair services that must be preauthorized, establishing reasonable dollar thresholds for preauthorization, and requiring both private vendors and state garages to comply with preauthorization requirements.

b. Clarifying preauthorization requirements for private vendors and state garages in rules, policies, and manuals.

c. Working with vendors who repeatedly fail to comply with preauthorization requirements.

d. Considering notifying state agencies of the names of vendors who should not be used to service vehicles because they have repeatedly failed to comply with the Department's preauthorization requirements.

Department of Personnel & Administration Response:

Partially agree. Implementation Date: August 31, 2005. SFM currently has guidelines for preauthorization for private vendors and guidelines for review at state garages. However, we agree guidelines for state garages should be formalized. We believe standards for state garages should be different than those for private vendors as the state garages essentially perform the preauthorization function for the purpose of controlling their own agency's vehicle cost. However, we do agree that any significant high dollar maintenance expense should be and is subject to review by SFM.

SFM current practices include notifying vendors when they are not in compliance with preauthorization procedures and in situations of egregious noncompliance, individual vendors may be removed from the state approved vendor list. We would not want a system that automatically removes vendors because in some small communities the vendor may be the sole source for services.

Standard Price Agreements

Standard price agreements serve as an important control over expenditures and should be another tool in Fleet Management's cost containment efforts. However, we found that unlike other large government fleet operations, Fleet Management does not use standard price agreements to the extent it could.

Currently Fleet Management uses the State's standard price agreements for tires and auto glass. Fleet Management does not make use of written price agreements for maintenance services, parts, or less routine repairs. Instead, staff report that Fleet Management uses national account and fleet menu pricing for many of the services it purchases. National account and fleet menu pricing are voluntary discounts, published in booklets, that certain vendors offer to large-scale purchasers. According to staff, when vendors do not offer national account or fleet menu prices, Fleet Management negotiates with auto repair shops each time a vehicle needs maintenance or repairs to obtain a reasonable price.

In contrast, the GSA reports that it has established written price agreements with national chains and repair shops to obtain optimal prices for routine maintenance services, repairs, tires, and batteries. GSA staff report that, in many instances, staff are able to obtain lower prices than national account pricing.

We evaluated Fleet Management's application of national account pricing for oil changes, a routine maintenance service. We compared oil change price data from CARS with the national account price reported by three national chain vendors. As we have discussed, there are problems with the reliability of CARS data for evaluating the prices paid for services due to data entry errors, use of placeholders, and bundling services. Therefore, we selected only values in the oil change service category for our comparison because data in this category were more reliable. We display the results of our analysis in the table below.

State Fleet Management Program
Comparison of CARS Work Order Values With
National Account Prices for Oil Changes
Fiscal Years 2002 - 2004

			Transactions At or Below National Account Price		Transactions Exceeding National Account Price	
Vendor	**Number of Transactions**	**National Account Price**	**Number / Percent of Transactions**	**Average Value of Transactions**	**Number / Percent of Transactions**	**Average Value of Transactions**
1	531	$29.99	458 (86%)	$26.03	73 (14%)	$32.97
2	2,195	$19.99	2,072 (94%)	$19.97	123 (6%)	$23.07
3	2,334	$19.95-$24.95	600 (26%)	$20.88	1,734 (74%)	$27.41
Totals	5,060		3,130 (62%)		1,930 (38%)	

Source: Office of the State Auditor's analysis of Colorado Automotive Reporting System (CARS) data for oil changes and national account prices provided by vendors.
Notes: Analysis was conducted using vendors from whom Fleet Management expects to receive national account prices.

The table shows that for Vendor 2, Fleet Management obtained the national account price for 2,072 of 2,195 transactions over the last three fiscal years, or about 94 percent of the time. In contrast, for Vendor 3, Fleet Management obtained the national account price for only 600 of 2,334 transactions, or about 26 percent of the time. Overall, about 1,930 transactions, or about 38 percent of the 5,060 oil change transactions we reviewed, exceeded the respective companies' national account prices.

We believe Fleet Management could do more to obtain optimal pricing for parts and services. As discussed previously, Fleet Management should analyze price data periodically to determine how frequently Fleet Management is obtaining national account or fleet menu pricing. Additionally, Fleet Management should identify vendors not offering national account or fleet menu pricing and evaluate their pricing trends. Fleet Management should use this information and work with the State Purchasing Office to identify the best purchasing mechanisms for obtaining economical pricing for parts, supplies, maintenance, and repair services from vendors. This should include considering written price agreements to obtain optimal pricing.

Additionally, Fleet Management should work with the garages operated by other state agencies to collect data on their expenditures for certain supplies, such as shop parts, tools, engine oil, and fluids, purchased on a routine basis. Fleet Management and the State Purchasing Office should pursue opportunities for additional savings by establishing written price agreements for these items. Price agreements have the potential to provide savings not only for the vehicles maintained by Fleet Management but also for the estimated 6,000 state-owned vehicles operated by other state agencies outside of the state vehicle fleet. Finally, price agreements could reduce the time Fleet Management staff currently spend on individual price negotiations for routine maintenance services, freeing up these resources for other purposes.

Recommendation No. 4:

The State Fleet Management Program should analyze price data contained in CARS and use this information to work with the State Purchasing Office to identify appropriate purchasing mechanisms, including price agreements, for obtaining economical pricing for parts, supplies, maintenance, and repair services. In addition, Fleet Management should work with the state garages to collect data on expenditures for certain high-volume supplies, such as engine oil and fluids, and identify opportunities for volume pricing for supplies purchased by all state garages.

Department of Personnel & Administration Response:

Agree. Implementation Date: Ongoing. SFM will work with the State Purchasing Office to explore the possibility of additional price agreements. Regional limitations and vendor participation may limit the value of any such agreements based on Fleet's previous experience. SFM believes the current National Account Pricing is effective in ensuring low cost preventive maintenance services. For example, according to the auditor's table, for Vendor No. 1, we obtained an average price of $26.03 for 86 percent of transactions for oil changes. This is more than $3 less than the National Account Price of $29.99. We expect that some anomalies will occur due to high cost areas and remote rural areas where the vendors do not participate in national account pricing programs.

SFM believes that there would be value to coordinate efforts with state garages to identify opportunities for commodity parts and service contracts.

We will continue to pursue opportunities to further leverage state purchasing power to improve and reduce costs for state fleet and non-state fleet repairs while ensuring that we do not alienate vendors particularly in rural or remote areas.

Review of Invoices Prior to Payment

An effective system of internal controls requires that invoices (1) be reviewed and authorized prior to payment and (2) include sufficient documentation to support and justify the expenditure. We reviewed Fleet Management's controls for reviewing invoices and authorizing payment for services. We found problems in the following areas:

- **Evidence of review.** CARS flags invoices from private garages for review before payment when (1) the billed amount exceeds the preauthorized amount by 10 percent, or (2) the individual transactions within an invoice exceed $750. Fleet Management reports that its practice is to also review all services that were not preauthorized. CARS flags invoices from state garages for review when the individual transaction exceeds $100. We reviewed 66 invoices that met one of the above criteria and found that 16 (24 percent) were paid without evidence of review. The majority of 16 invoices were for goods or services valued at less than $50 and were not preauthorized. Payment review and authorization, particularly when services are not preauthorized and are for multiple low dollar services, is an important control to prevent duplicate payments and fraudulent transactions.

- **Controls to identify potential duplicates.** The CARS system does not flag purchases that may be duplicates. We reviewed purchases recorded in CARS between Fiscal Years 2002 and 2004, matching on the type of good or service, price, vehicle, vendor, and purchase date. We identified over 2,000 instances where the same good or service was recorded as purchased two or more times. Additional payments for these goods and services, beyond the first payment, totaled over $33,500. The majority of these goods and services were for items with low dollar values, such as shop supplies, miscellaneous repairs, and car washes, and were billed primarily by state garages. These potential duplicate purchases could indicate fraud or inventory theft. We provided these potential duplicate purchases to Fleet Management for review. Fleet Management identified one work order that contained 21 of these items and confirmed that the work order was paid twice. The overpayment was nearly $1,200. Fleet Management needs to establish a control in CARS that identifies potential duplicate purchases for goods and services and flags them for investigation before payment. Any billing patterns indicating possible fraud or inventory theft should be reported to Vehicle Coordinators at the appropriate department and investigated.

- **Insufficient documentation to support payment.** The Motor Vehicle Repair Act [Section 42-9-108, C.R.S.] requires all vehicle repair invoices for work performed in Colorado to include the following information in addition to detailed information about the vehicle serviced and the work performed: (1) customer name and address, (2) vehicle license plate number, (3) year and make of vehicle, (4) odometer reading at the time of repair, and (5) date of service. We reviewed a sample of 95 paid invoices for Fiscal Year 2004 and found that 69 lacked at least one of the items required by statutes. Of these 69 invoices, 33 (about 48 percent) were missing one or more of the following statutorily required items: odometer reading, date of service, or license plate number. This information is needed to verify that billed services were actually provided and to minimize errors and irregularities.

- **Controls to eliminate CARS system default errors.** The CARS system includes a default function that automatically populates a data field with the most recently recorded vehicle odometer reading if the odometer reading is not entered from the invoice or received from the vendor. We reviewed CARS purchases between Fiscal Years 2002 and 2004, matching on the type of good or service, price, vehicle, vendor, and odometer reading. This was a different analysis from the one discussed previously because we matched on the odometer reading rather than on the date of service. We identified almost 6,500 instances where it appeared that a good or service was purchased more than once for the same vehicle. We could not determine how many of these potential duplicate purchases were due to the default odometer reading function and how many were actual duplicates. Fleet Management reviewed 64 of these potential duplicate purchases valued at nearly $2,300 which matched on odometer readings and confirmed that 30 purchases valued at just over $1,200 were actually paid twice.

Fleet Management needs to improve payment controls and ensure all invoices include sufficient support and are reviewed and authorized before payment. The CARS default function, creating errors in odometer readings, should be corrected. Additionally, system flags should be added in CARS to identify potential duplicate payments for investigation and resolution. Fleet Management should document its review of flagged transactions, along with the resolution, as appropriate.

Recommendation No. 5:

The State Fleet Management Program should improve controls over review and payment of invoices by:

a. Ensuring that all transactions that have been flagged by CARS and that have not been preauthorized are reviewed before payment. Review should be documented.

b. Establishing a control in CARS to identify and flag potential duplicate part and labor codes for review before payment.

c. Requiring vendor invoices to be complete and in compliance with statutory requirements before payment and working to educate vendors who repeatedly submit invoices that do not comply with statutes.

d. Eliminating the CARS system default function that automatically populates the odometer field with the most recent vehicle odometer reading when the actual vehicle odometer reading is not available from the vendor or invoice.

Department of Personnel & Administration Response:

a. Agree. Implementation Date: Ongoing. SFM current practices include reviewing transactions prior to payment and researching anomalies. In addition to the threshold identified by the audit report, SFM procedures also require review any time the billed amount exceeds the authorized amount by $50. SFM has subsequently reduced this amount to $0. SFM will improve documentation of each step of the existing review process to enhance auditability of the process.

b. Partially agree. Implementation Date: January 2006. SFM will evaluate the need for additional controls. However, SFM believes existing system controls are working effectively to virtually eliminate duplicate payments. Specifically, SFM performed a comprehensive analysis of payments during the past 3 fiscal years. Of the approximately $18,115,486 of expenditures during this time period, SFM identified only $4,727 that were duplicate payments made to private vendors (less than 0.03 percent).

c. Partially agree. Implementation Date: Ongoing. We agree SFM needs to ensure that services billed were provided. The CARS system and SFM provide compensating controls to ensure only appropriate payments are made. For example, SFM captures the required data including odometer, date of service and license plate on all preauthorized purchases through the purchase order. Although this information may not be on the paper invoice, the required information is present on the transaction documentation. SFM will continue to work with vendors to ensure that the necessary information needed to process payments is collected.

d. Partially agree. Implementation Date: Ongoing. We agree that having the actual odometer reading is preferred and SFM will continue to make every effort to capture accurate odometer readings from vendors. In those situations where it is impractical or impossible to get an actual odometer reading, it is preferable to get an estimated reading from the CARS system rather than leaving the field blank. This estimated reading is valuable in monitoring future scheduled repairs and warranty issues, whereas a blank field adds no value.

Auditor Addendum:

The goal of an effective payment system is to eliminate duplicate payments. The current system and controls are inadequate. We are concerned that Fleet Management's review of potential duplicate transactions, discussed in the above response, excluded all transactions from state garages. Transactions from state garages made up the majority of the potential duplicate transactions we provided to Fleet Management.

Transaction Limits

Establishing reasonable limits for transactions is an important cost containment control. Transaction limits are particularly important for fuel cards, which can be used multiple times daily for a variety of transactions. Currently Fleet Management has a limit of $100 per fuel card transaction. The number of transactions is limited to four per day. Therefore, it is possible to use a fuel card to purchase up to $400 in fuel or minor maintenance items each day before limits apply.

We examined nearly 157,000 fuel card transactions processed between January and June 2004. Of these transactions, approximately 10,000 transactions were listed as invalid according to the CARS database as a result of coding errors, as previously discussed. Of the remaining 147,000 transactions, we found that over 145,000 transactions (99 percent) were for amounts less than $50. Furthermore, over 105,000 transactions processed during this period (71 percent) were for amounts less than $25. We concluded that the current limit of $100 per transaction is excessive for most vehicles in the fleet.

Fleet Management should analyze fuel purchase data and determine appropriate fuel card limits to mitigate the potential for fraud. On the basis of current data, we believe a limit of $50 per transaction would be appropriate. There are some vehicles in the fleet that may, due to their fuel capacity and driving patterns, require a higher limit than $50 per transaction. Fleet Management should work with agencies to identify these vehicles and establish higher transaction limits on an individual basis.

Recommendation No. 6:

The State Fleet Management Program should analyze fuel card transaction data and determine appropriate fuel card limits to reduce the opportunity for fraudulent transactions.

Department of Personnel & Administration Response:

Agree. Implementation Date: July 2005. The ability to establish transaction limits at a vehicle specific level was not available until November 2004. Given this new capability, we will analyze whether lowering the dollar threshold will be cost effective.

Asset Management

Chapter 2

Introduction

Maintenance includes costs for parts and supplies, such as oil, air filters, and spark plugs, for routine services that are performed at specific intervals. Some maintenance services, such as oil changes and brake inspections, are required on a relatively frequent basis. Other services, such as cooling system flushes and transmission service, are required less frequently. In this chapter, we discuss the State Fleet Management Program's (Fleet Management) practices for maintaining and disposing of state-owned vehicles. Overall, we found that fleet vehicles are not being maintained in accordance with Fleet Management's own standards. We also found that, in some instances, Fleet Management disposed of used state-owned vehicles without complying with statutory requirements for emissions tests.

Scheduled Maintenance

Establishing an appropriate maintenance schedule for the make and model of each vehicle is key to protecting the mechanical integrity, safety, and reliability of the State's fleet. Department of Personnel & Administration (Department) rules state that "all state-owned vehicles will be serviced on a regular basis, at frequencies and intervals appropriate for the vehicle assignment as determined by Fleet Management." Program staff have developed 36 different maintenance schedules based on the make, model, and use of the vehicle and have assigned a schedule to each vehicle. According to the *State Fleet Management Vehicle Operator's Manual* and Department rules, the maintenance schedule is mandatory.

We evaluated the repair and maintenance histories of a sample of 100 fleet vehicles against Fleet Management's established maintenance schedules for those vehicles. We found that for Fiscal Years 2002 through 2004, 58 of these vehicles missed, on average, four required maintenance services. We also found that for the approximately 1,100 required maintenance services over the three-year period, about 570 services (52 percent) were performed late. On average, these services were overdue by about 50 percent. In other words, if the service interval for a particular service is 5,000 miles, a service that is overdue by 50 percent is overdue by 2,500 miles.

We also evaluated 10 of Fleet Management's 36 maintenance schedules against the recommended schedules developed by vehicle manufacturers. We found that the maintenance schedules matched or were more aggressive than the manufacturer's recommendations for some service intervals and were less aggressive than the manufacturer's recommendations for other service intervals. Fleet Management was unable to supply documentation on the basis of its schedules. Fleet Management also has not performed a cost analysis to justify different service intervals than those set forth in schedules developed by vehicle manufacturers.

According to Fleet Management staff, state agencies are responsible for ensuring their assigned vehicles receive maintenance in accordance with Fleet Management's established schedules. Our review indicates that agencies are falling short on this responsibility. Fleet Management needs to ensure that maintenance schedules are adequate to protect the mechanical integrity and safety of fleet vehicles and that deviations from manufacturer recommendations have a reasonable basis and are supported by analysis of cost data. Additionally, Fleet Management needs to take a more active oversight role to ensure that proper maintenance occurs and that the State's investment is protected. For example, Fleet Management should enhance its tickler system so that it notifies agencies when their assigned vehicles need maintenance. Currently agency staff must access CARS to determine whether maintenance is due. Fleet Management should also routinely monitor the maintenance performed and identify areas where the service does not meet established maintenance schedules. Finally, Fleet Management should establish an escalated penalty process for noncompliance with established maintenance schedules. It should also enforce these penalties when agencies consistently fail to comply with applicable maintenance schedules. Unless penalties are clearly defined, applied, and enforced, state agencies have little incentive to follow Department rules and ensure that vehicles are properly maintained.

Recommendation No. 7:

The State Fleet Management Program needs to strengthen its controls and oversight of maintenance to ensure that fleet vehicles are properly maintained in accordance with established schedules. This should include:

a. Analyzing cost data and developing a reasonable basis for maintenance schedules when required service intervals deviate from the recommendations of the vehicle manufacturer.

b. Enhancing its tickler system to provide email notification to Vehicle Coordinators when their fleet vehicles are coming due, or are past due, for maintenance services.

Evaluating, on a regular basis, the routine maintenance services that are performed on fleet vehicles and notifying state agencies of noncompliance.

c. Establishing an escalated schedule of penalties and fees, and consistently enforcing these fees, for repeatedly failing to maintain fleet vehicles in accordance with their maintenance schedules.

Department of Personnel & Administration Response:

a. Agree. Implementation Date: Ongoing. SFM performs this analysis when it establishes its maintenance schedules. Based upon the data available from the CARS system, as well as the recommendations from the manufacturer, we believe the established schedules are reasonable and strike an appropriate balance between vehicle care and cost. SFM will continue to perform this analysis and revise the maintenance schedules as necessary and will more formally document deviations from manufacturer recommendations.

b. Agree. Implementation Date: January 2007. (Conditional on General Fund availability for IT resources and statewide IT priorities.) SFM initiated this project in November 2003. The project remains in development, and is dependent on General Fund availability for IT resources and competing priorities, as well as software limitations.

c. Agree. Implementation Date: Ongoing. While this information is available to vehicle coordinators through the CARS system, SFM could be more proactive in monitoring and notifying agencies of noncompliance.

d. Partially agree. Implementation Date: Ongoing. SFM does not believe penalties and fees are the best mechanism to ensure compliance recognizing the limited and restricted budget of our state customers. Rather it is our philosophy to work with our customers in a cooperative manner to achieve compliance. SFM will pursue a notification escalation process to achieve compliance where appropriate. In cases of repeated violations, SFM rules allow for DPA to revoke authorization or impose restrictions and will pursue this when deemed necessary.

Vehicle Disposal

From Fiscal Years 2002 through 2004, Fleet Management disposed of 1,520 state-owned vehicles to buyers in 43 states, the District of Columbia, Canada, and Mexico. Currently Fleet Management has an agreement in place with the Division of Correctional Industries (Correctional Industries) to dispose of state-owned vehicles through Internet and sealed-bid auctions. In the past, Fleet Management also disposed of vehicles through live public-bid auctions. Additionally, Fleet Management allows some agencies with permanently assigned vehicles located at remote sites to dispose of their own vehicles.

Statutes require that vehicles pass an emissions test if the vehicles will be registered by non-dealers in one of Colorado's seven enhanced emission counties. These counties are Adams, Arapahoe, Boulder, Douglas, Jefferson, and the cities and counties of Broomfield and Denver. Basic emissions tests are also required for vehicles that will be registered by non-dealers in El Paso, Larimer, and Weld counties. Compliance with the emissions standards is not required if the sale is between licensed automotive dealers. The purchasing dealer must later ensure that the vehicle complies with emissions standards before selling it to a non-dealer. The Department of Revenue, which oversees the licensure of motor vehicle dealers, considers Fleet Management to be a dealer for purposes of emissions laws.

We reviewed vehicles sold by Fleet Management during the last three fiscal years to determine if Fleet Management was complying with the requirements of the emissions laws. We found the following problems with the disposal process:

- **Vehicles were sold to non-dealers in emissions counties with failed emissions tests.** From Fiscal Years 2002 through 2004, Fleet Management sold 32 vehicles that failed emissions tests to non-dealers living in Colorado's emissions counties, in violation of statutes. These vehicles were sold through eBay, sealed-bid, and live public-bid auctions, as well as auctions held remotely at the University of Colorado at Boulder and Colorado State University.

- **Vehicles were incorrectly classified as inoperable.** Statutes and Department of Revenue rules allow vehicles that are "inoperable or otherwise cannot be tested," due to a *major mechanical failure*, to be sold without an emissions test, as long as the buyer is properly notified. In other words, these are vehicles that generally cannot be driven and are unfit for an emissions test. In these cases, the seller must provide the buyer with a signed *Notice of Emissions Noncompliance Form* when the vehicle is sold. Over the last three fiscal years, we identified 503 vehicles that were sold in Colorado without an emissions test because, according to Fleet Management, these vehicles were inoperable. Department of Revenue staff reported that on the basis of information in the CARS database, 21 of these vehicles (4 percent) did not appear to have any identifiable major mechanical failures. If these vehicles were not inoperable, Fleet Management should have obtained an emissions test prior to sale. Of these 21 vehicles, we identified 11 vehicles that were sold to non-dealers in either an enhanced or basic emissions county, and not to licensed automotive dealers.

- **Vehicles received unnecessary emissions tests.** Prior to January 2004, fleet vehicles were required to have a current emissions test within 120 days of the sale date. Current statutes require fleet vehicles to have an emissions test within one year of the sale date. Fleet Management's policy is to obtain a current emissions test within 90 days of the sale date. We analyzed CARS data for Fiscal Years 2002 through 2004 and found that 33 vehicles received unnecessary emissions tests because the previous tests were still valid. The value of the emissions tests for these 33 vehicles was $800.

Fleet Management needs to improve its controls over the sale of used state-owned vehicles to ensure that it complies with state emissions laws. First, because Fleet Management cannot know in advance who will bid on its vehicles at auction, it must restrict bidding on vehicles that failed their final emissions tests. This can be done by notifying potential buyers of which vehicles failed their final emissions tests and informing them that, due to state law, these vehicles cannot be purchased by non-dealers who will register the vehicles in one of Colorado's emissions counties. In addition, Fleet Management needs to verify the addresses of buyers at the time of purchase to check that these buyers do not reside in an enhanced or basic emissions county. If buyers claim to be licensed automotive dealers, Fleet Management should require them to provide evidence of licensure. Second, Fleet Management needs to ensure that the *Notice of Emissions Noncompliance Form* is used appropriately and only for inoperable vehicles that fit the criteria established by the Department of Revenue. Third, Fleet Management should revise its disposal policy and only obtain a new emissions test when the previous test is more than one year old. Finally, since Fleet Management has an agreement with Correctional Industries to dispose of state-owned vehicles, Fleet Management must work with Correctional Industries to ensure that proper controls for emissions tests and vehicle disposal are implemented.

Recommendation No. 8:

The State Fleet Management Program should ensure that it sells used state-owned vehicles in compliance with statutory and regulatory requirements. Specifically, Fleet Management should implement proper controls and auction procedures to ensure that vehicles comply with various statutory and regulatory requirements for emissions testing on vehicles that will be registered by non-dealers in Colorado's emissions counties.

Department of Personnel & Administration Response:

Agree. Implementation Date: Ongoing. The audit indicates a potential compliance issue on 11 vehicles out of approximately 1,500 sold in the last three fiscal years. The Department of Revenue personnel did not have sufficient information in order to make an accurate opinion on the condition of the vehicle. SFM will continue to examine vehicles sold to comply with statutory and regulatory requirements. The audit indicates 33 vehicles received "unnecessary" emissions tests. While the tests may not have been required by statute, recent emissions tests improve the marketability of the vehicles.

Auditor Addendum:

We note that a total of 43 vehicles (32 vehicles with failed emissions tests sold to non-dealers in emissions counties and 11 vehicles sold without an emissions test and an identified major mechanical failure) were out of compliance with emissions statutes. In addition, another 254 vehicles that did not receive an emissions test could not be reviewed for compliance because detailed information on the condition of these vehicles was missing in CARS. Finally, the information reviewed by Department of Revenue personnel was data contained in CARS, which is the only information Fleet Management maintains on the condition of the vehicle at the time of sale.

Commuting Program

Chapter 3

Introduction

Statutes allow state employees to commute to work using a state-owned vehicle when authorized by the employee's Executive Director [Section 24-30-1113, C.R.S.]. Executive Directors have authority to approve commuting only when it (1) is necessary for conducting official state business, (2) promotes a legitimate nonpartisan state interest, (3) promotes the efficient operation of the state motor vehicle fleet system, and (4) is cost-effective to the state agency. Statutes authorize the Department of Personnel & Administration (Department) to issue rules and regulations governing commuting. The State Fleet Management Program (Fleet Management) within the Division of Central Services oversees the day-to-day operations of the commuting program.

Internal Revenue Service (IRS) regulations classify commuting in a state-owned vehicle as a taxable fringe benefit. Therefore, unless exempt under IRS regulations, employees who commute must either reimburse the State on a monthly basis or have the dollar value of their personal commuting included in their annual taxable income. Department rules require state employees commuting in a state-owned vehicle to reimburse the State at a rate of $60 per month unless the employee is an elected official or is exempt. Elected officials must reimburse the State at a rate established by the IRS, which is currently 37.5 cents per mile, or use the IRS's lease valuation rule. Employees who are exempt from reimbursing the State are employees who, in accordance with Department rules, commute in a qualified nonpersonal-use vehicle (such as a clearly marked police or fire vehicle) or qualify as a peace officer and drive an unmarked police vehicle, or an employee whose state-owned vehicle or home functions as the employee's official workstation.

Fleet Management's Colorado Automotive Reporting System (CARS) database maintains information on employees who are authorized to commute in state-owned vehicles. We identified substantial problems with the accuracy of commuting program data. During the audit, Fleet Management surveyed state agencies to obtain updated information on the employees currently authorized to commute in state-owned vehicles. Since the survey data are self-reported and not verified, we provide the following statistics for descriptive purposes only. According to survey data, more than 850 vehicles, or about 14 percent of the approximately 6,000 vehicles in the State's centralized fleet, are being used for commuting. About 17 percent of commuters reported that they reimburse the State; about 80 percent of commuters reported they were classified as exempt, and about 3 percent of commuters did not provide information on whether they were reimbursing or classified as exempt.

We reviewed Fleet Management's oversight of the State's commuting program. We identified questionable practices by state agencies and employees that appear to be in violation of IRS regulations. This is not the first time we have identified concerns with the State's commuting practices. Three prior audits – including our 1996 financial audit of the Colorado State Fair Authority, our 1999 performance audit of the Division of Wildlife, and our 2003 performance audit of the Colorado Lottery – identified issues related to commuting. Although these issues were brought to the attention of the individual agencies and copies of these audits were given to the Department of Personnel & Administration, problems have continued. Finally, we question the State's policy decision allowing general use of state-owned vehicles for commuting purposes and recommend that the State reevaluate whether the commuting program should continue.

Exempt Commuting

As previously mentioned, IRS regulations require employees who commute in a state-owned vehicle to either reimburse the State monthly or have the value of the reimbursement added to their taxable annual income. There are two exceptions to this reimbursement requirement:

- **Employees who commute in qualified nonpersonal-use vehicles.** A qualified nonpersonal-use vehicle includes, but is not limited to, clearly marked police and fire vehicles, unmarked vehicles used by law enforcement officers, large passenger and school buses, ambulances, delivery trucks with limited seating, and pickup trucks or vans that have been modified with specialized equipment or used for special purposes. The IRS exempts employees who commute in qualified nonpersonal-use vehicles from reimbursing the State. According to Fleet Management survey data, over 460 employees are currently commuting in qualified nonpersonal-use vehicles.

- **Employees who are exempt from reimbursing for business purposes.** The IRS exempts some state employees who do not work in state offices and who use a state-owned vehicle for business purposes from reimbursing for commuting. Current employees claiming this exemption include Lottery sales representatives; oil, boiler, propane, and explosive inspectors; parole board members; water commissioners; and certain higher education instructors. These employees are exempt from reimbursing for commuting if their home office meets specific criteria set forth by the IRS or if their first and last business contact each day is outside of their metro area as defined by the IRS. Fleet Management survey data currently indicate that about 225 employees are claiming a business purpose exemption because either their state-owned vehicle or home functions as their official workstation.

We tested 27 vehicles classified as qualified nonpersonal use (none of the vehicles were law enforcement vehicles) and identified 20 (74 percent) that did not appear to meet IRS criteria. These vehicles were pickup trucks and passenger utility vehicles that did not appear to be outfitted with specialized equipment or used in specialized operations as required by the IRS. If these vehicles do not qualify as qualified nonpersonal use, the employees commuting in these vehicles should either be reimbursing the State at a rate of $60 per month per vehicle or have the value of the reimbursement added to their taxable annual incomes.

We also contacted 17 employees who were classified as exempt from reimbursement because either they worked from their home or they used their state-owned vehicle as their official workstation to travel to various job sites. We identified 10 employees (59 percent) with business-related travel who, according to IRS regulations, did not appear to meet at least one of the criteria for the commuting reimbursement exemption. We found that eight employees reported that they did not maintain driving logs to substantiate their business travel as required by the IRS; seven employees reported having state-provided office space (which may mean they cannot claim their home as their office under IRS regulations); four employees reported that they were not using the business portion of their home exclusively for business as required by the IRS; and six employees reported business travel within their metro area, some of which may not be exempt from reimbursement according to IRS regulations. If these employees do not meet IRS criteria for exemption, they should also be reimbursing the State at a rate of $60 per month per vehicle or have the value of the reimbursement included in their taxable annual incomes.

Overall, our review found that over half of the employees in each of our samples did not appear to qualify for an exemption from commuting reimbursement according to IRS regulations. Fleet Management survey data indicate that nearly 700 employees are currently claiming either a qualified nonpersonal-use or business purpose exemption. The Department needs to review these exemptions to ensure they are appropriate. For any employee who is classified as exempt incorrectly, the State is due reimbursements of $60 per month, for a total of $720 per year, or this amount must be added to the employee's gross income. Additionally, there could be tax implications for both the employee and the State.

IRS regulations governing commuting exemptions are complex. We found that neither Department rules nor the *Commuting Authorization Form,* which is completed by state agencies when employees participate in the commuting program, appear to sufficiently explain all of the criteria state agencies and employees must consider and document to qualify for an exemption. The Department needs to seek legal advice to assist with evaluating its commuting rules and to determine an appropriate course of action. This should include revising rules, providing guidance to employees, and evaluating the need for additional controls and oversight by the Department and state agencies to ensure reimbursement exemptions comply with IRS requirements.

Recommendation No. 9:

The Department of Personnel & Administration should seek legal advice from the Office of the Attorney General on the sufficiency of its current rules and guidance for the commuting program to ensure that current practices which exempt employees from reimbursing for commuting in a state-owned vehicle comply with Internal Revenue Service regulations. This should include evaluating the need for additional controls and oversight by the Department and state agencies to ensure that all reimbursement exemptions comply with Internal Revenue Service requirements.

Department of Personnel & Administration Response:

Partially agree. Implementation Date: June 2005. In response to the audit findings, SFM has drafted rule revisions to ensure compliance with Internal Revenue Services (IRS) regulations and IRS publication 15b. Consistent with the rule-making process, the Office of the Attorney General will review these rules prior to adoption.

Authorized Commuting

Statutes allow employees to use state-owned vehicles for commuting when it (1) is necessary for conducting official state business, (2) promotes a legitimate nonpartisan state interest, (3) promotes the efficient operation of the state motor vehicle fleet system, and (4) is cost-effective to the state agency [Section 24-30-1113, C.R.S.]. In addition, IRS regulations provide that an employee should only be authorized to commute in a state-owned vehicle when the agency *requires* the employee to commute. According to statutes, the Executive Director of a state agency can authorize an employee to use a state-owned vehicle for commuting purposes when all of the above criteria are met. To authorize an employee to commute, the agency Executive Director submits a signed *Commuting Authorization Form,* along with supporting documentation, to the Executive Director of the Department of Personnel & Administration for final review and approval. We reviewed the commuting authorization process and identified the following issues:

- **Inaccurate commuter numbers.** Department rules and the *Vehicle Coordinator Handbook* require agencies to notify Fleet Management of any changes in commuting information. This allows Fleet Management to track and monitor the number of active commuters. At the time of our audit, the CARS database reported that there were 1,388 active commuters in the State. However, according to the Fleet Management survey conducted during the audit, agencies reported that there are just over 850 employees currently commuting.

- **Missing or improper authorizations.** Statutes and Department rules provide that only the Executive Director of the authorizing agency can sign the *Commuting Authorization Form* approving an employee to commute in a state-owned vehicle. We reviewed authorizations in the CARS database and found that of 1,388 approved *Commuting Authorization Forms,* only 314 (23 percent) were signed by the employees' Executive Directors. Another 25 (2 percent) did not contain any authorization signatures, while 1,049 (75 percent) had been signed by someone other than the Executive Director. Statutes also require the Executive Director of the Department of Personnel & Administration to approve a commuting request only after reviewing and verifying the *Commuting Authorization Form* and supporting documentation [Section 24-30-1113, C.R.S.]. We found that no one at either the Department or Fleet Management reviews the *Form* and typically no supporting documentation is submitted.

- **Incorrect reimbursement information.** Department rules require elected officials and other highly compensated employees to reimburse the State for commuting using either the cents-per-mile rate or the lease valuation rate. We found that the *Commuting Authorization Form* lists the incorrect reimbursement amount for the cents-per-mile option and the incorrect salary amount for determining if an employee is highly compensated. The current IRS cents-per-mile reimbursement rate is 37.5 cents per mile; in contrast, the *Commuting Authorization Form* lists a reimbursement rate of 31 cents per mile. The IRS defines a highly compensated employee as one who is paid at least $128,200 annually; in contrast, the *Commuting Authorization Form* defines a highly compensated employee as someone earning at least $108,200 annually. At the time of our audit, we found there was one elected official who was authorized to commute and was reimbursing the State at the outdated rate of 31 cents per mile.

- **Insufficient reconciliations for commuting reimbursements.** Each month, Fleet Management staff report that they compare CARS data on commuters classified as reimbursing to vehicle reimbursement deduction reports produced by Central Payroll. We compared commuting authorizations with payroll records for the last six months of Fiscal Year 2004 and found that not all commuters classified as reimbursing were actually doing so. Specifically, 14 active commuters did not reimburse the State for one or more of the months we tested. This represents $2,400 in revenue that was not received by the State for the six months we reviewed. We also found that one employee consistently pays less than the required $60 per month reimbursement amount.

To ensure agencies comply with state and federal requirements, Fleet Management needs to revise the *Commuting Authorization Form.* This should include seeking legal advice on IRS reimbursement regulations as discussed earlier in this chapter and incorporating appropriate guidance, as needed. The *Commuting Authorization Form* should also clarify that only an agency Executive Director can sign and authorize an employee to commute. In addition, Fleet Management should review all *Commuting Authorization Forms* to ensure they are complete and have been signed by the agency Executive Director. If a *Commuting Authorization Form* is not complete or does not contain the appropriate signature, Fleet Management should return it to the agency for completion. Fleet Management should require agencies to submit updated *Commuting Authorization Forms* each year to ensure that authorized commuters continue to meet state and federal requirements and to provide Fleet Management with accurate commuter information. Finally, Fleet Management should document its monthly reconciliation of employees who are required to reimburse for commuting with Central Payroll reports and follow up with agencies to ensure that required reimbursements actually occur. Alternatively, Fleet Management needs to ensure that agencies add the value of commuting into the employee’s gross income as reflected on the Form W-2.

Recommendation No. 10:

The Department of Personnel & Administration and the State Fleet Management Program should improve their oversight of the State’s commuting program by:

a. Seeking legal advice, as discussed in Recommendation No. 9, and revising the *Commuting Authorization Form*, as indicated, to ensure it complies with statutory requirements and Internal Revenue Service regulations.

b. Reviewing all *Commuting Authorization Forms* to ensure they are complete and have been signed by the agency Executive Director. Incomplete forms should be returned to the agency for completion and appropriate signatures.

c. Requiring agencies to submit updated *Commuting Authorization Forms* annually for all employees authorized to commute.

d. Improving the monthly reconciliation process between employees who are required to reimburse for commuting and Central Payroll deduction reports to ensure that reimbursements are deducted appropriately, or taking steps to ensure that agencies include the value of commuting in the employee's gross income as detailed on the Form W-2.

Department of Personnel & Administration Response:

a. Partially agree. Implementation Date: June 2005. SFM will revise the Commuting Authorization Form. Please refer to DPA's response to Recommendation No. 9.

b. Agree. Implementation Date: June 2005. SFM will establish a process to review all Commuting Authorization Forms for completeness.

c. Partially agree. Implementation Date: June 2005. (Conditional on General Fund availability for IT resources and statewide IT priorities.) While SFM believes it is important to perform an annual verification of commuting, we do not believe it must be done via resubmission of a paper form. SFM will establish an appropriate process to ensure annual verification of commuting authorizations.

d. Partially agree. Implementation Date: July 2005. Generally, accurate processing of payroll is the responsibility of each department. However, SFM is evaluating rule changes that will require the value of commuting to be realized through imputed income as opposed to the more cumbersome reimbursement process. The imputed income approach usually is more cost effective for our state employees. SFM intends to require the signature of the departmental payroll officer on the Commuting Form signifying that the appropriate entries have been made in the payroll system to ensure that the commuting value is included on the employee's W-2. SFM will work with Central Payroll within the State Controller's Office to inform payroll officers of the new process.

Need for a Commuting Program

As discussed throughout this chapter, our audit identified significant problems with oversight of the State's commuting program. Specifically, we questioned whether agencies and employees were complying with IRS regulations related to reimbursements, and identified issues with the controls authorizing employees to commute in state-owned vehicles. We also found that Fleet Management does not have accurate and complete data related to the commuting program and the employees authorized to commute.

According to Fleet Management's self-reported survey data, over 850 vehicles, or approximately 14 percent of the active centralized fleet, are used in the commuting program. Less than one-fifth of these vehicles are used by employees who reimburse and the remainder are used by employees who do not. We obtained commuting miles driven by the employees who reimburse (143 employees). Using these data, along with fuel and maintenance expenditures per mile, we determined that the total commuting cost for these 143 employees was about $265,000 per year. Reimbursements received from these employees should total about $103,000. After receiving the reimbursements, the State still paid nearly an additional $162,000 for employees to commute in these vehicles. This figure does not include the cost of additional wear and tear on vehicles that would not occur if the vehicles were not used for commuting.

During our audit we surveyed the City and County of Denver and the states of Arizona and Nebraska to compare their commuting programs with Colorado's program. We found that all three entities have more restrictive commuting policies than Colorado. These entities limit authorized commuting to law enforcement officers, senior officials, or on-call employees. Conversely, Colorado provides general guidelines for when commuting may be authorized, but the guidelines do not specifically identify the types of employees that are permitted to commute.

The Department of Personnel & Administration is responsible for ensuring that the commuting program benefits the State. Therefore, the Department and Fleet Management should conduct a comprehensive assessment of the commuting program to determine if there is a need for the program and, if so, whether the program is cost-effective. This should include evaluating the types of employees that are allowed to commute to determine if further restrictions are needed to ensure the program's cost-effectiveness. If the decision is made to continue the commuting program in some form, controls should be strengthened to ensure compliance with state and federal requirements. Alternatively, the Department should propose legislation to eliminate the program.

Recommendation No. 11:

The Department of Personnel & Administration, working with the State Fleet Management Program, should conduct a comprehensive assessment of the commuting program to determine if there is still a need for the program and, if so, whether the program is cost-effective for the State. If the commuting program continues, the Department needs to strengthen its controls and monitoring procedures to ensure compliance with state and federal requirements. Alternatively, the Department should propose legislation eliminating the program.

Department of Personnel & Administration Response:

Partially agree. Implementation Date: Ongoing. We believe the commuting program is a valuable and essential component of state government. However as with all programs we will periodically monitor the program's usefulness and necessity. As noted in our previous responses, we have agreed to take the necessary steps to ensure compliance with state and federal requirements.

Administration

Chapter 4

Introduction

Throughout this report, we have identified problems with the oversight of the State's centralized fleet. In this chapter, we discuss mechanisms for improving accountability by performing a physical inventory of fleet vehicles and tightening oversight and enforcement of responsibilities assigned to state agencies. Additionally, we suggest that the Department of Personnel & Administration (Department) review its statutes to ensure the centralized vehicle fleet is structured to accomplish the intent of the General Assembly.

Vehicle Inventory

State Fiscal Procedures require state assets with an acquisition cost of $5,000 or more to be inventoried annually at or near fiscal year-end. The Office of the State Auditor's Fiscal Year 2003 Statewide Financial Audit found that the State Fleet Management Program (Fleet Management) has not been conducting these physical inventories. We requested information on the state fleet's physical inventory effective June 30, 2004. Fleet Management was not able to provide this information. According to information recorded in the State's accounting system, the fleet inventory was valued at just over $100 million as of June 30, 2004.

Our Fiscal Year 2003 Statewide Financial Audit recommended that Fleet Management conduct a physical inventory of fleet vehicles in accordance with State Fiscal Procedures. In response to our recommendation, Fleet Management indicated that it would send an exception list to state agencies at the end of each fiscal year to assist with identifying vehicles in the state fleet without any activity, or gaps in activity, during the year, such as few or no reports of fuel, mileage, or maintenance. The agencies would then be required to verify and signoff on their possession of the vehicles on this exception list. Department staff indicated that Fleet Management has not implemented this recommendation and will be delaying implementation until February 2005.

An exception report could be a useful tool in addition to the physical inventory required by the State Controller. Fleet Management should work with the State

Controller to develop a method for either complying with State Fiscal Procedures or determining an acceptable alternative.

Recommendation No. 12:

The State Fleet Management Program should work with the State Controller to develop a method for conducting a physical inventory of the centralized vehicle fleet, as required by State Fiscal Procedures.

Department of Personnel & Administration Response:

Partially agree. Implementation Date: February 2005. SFM is developing an exception reporting process to eliminate the need for an actual physical inventory, as this would be impractical. The process has been developed but has not been implemented due to resource constraints. SFM will work with the State Controller's Office to ensure this alternative is acceptable.

Auditor Addendum:

Inventories are essential to safeguarding valuable state assets. As noted, State Fiscal Procedures require an inventory of assets greater than $5,000. In addition, many agencies inventory items worth less than $5,000 (e.g., computers) to provide additional assurance that assets are protected.

Car Washes

Currently state agencies bill Fleet Management for car washes for their assigned fleet vehicles. Car washes are classified as a maintenance expense and agencies may bill Fleet Management for up to two car washes per vehicle per month. Any additional car washes must be purchased from the agency's own budget. During Fiscal Years 2002 through 2004, Fleet Management processed over 88,000 transactions for car washes, for a total of nearly $660,000.

A car wash is not necessary to maintain a vehicle in proper working order. We believe that Fleet Management should discontinue processing and paying for car washes. It is more appropriate for individual agencies to process and pay for their own car washes, since the number of car washes a vehicle needs will depend on agency policy and the agency's use of that vehicle. Eliminating review and payment of invoices for car washes will free up Fleet Management resources for other more important duties.

Recommendation No. 13:

The State Fleet Management Program should discontinue processing and paying for car washes for centralized fleet vehicles. Agencies should pay for car washes for their assigned fleet vehicles from their own budgets.

Department of Personnel & Administration Response:

Agree. Implementation Date: July 2005. Although car washes are necessary, SFM provides no value when processing and paying for these charges. SFM will discontinue paying for car washes that are submitted by agencies for reimbursement. However, SFM will continue to pay for those car washes when obtained through the fuel card via discount offerings at the pump.

Management of the Centralized Fleet

According to statutes, the Department has ultimate responsibility for the State's centralized fleet. Statutes require the Department to adopt and enforce uniform rules and provide guidance for operating the fleet. Agencies are required to manage their assigned fleet vehicles in accordance with statutes and Department rules. Each agency has at least one designated Vehicle Coordinator, who, in addition to other agency responsibilities, oversees the agency's permanently assigned vehicles. We evaluated Fleet Management's oversight of duties assigned to state agencies and their Vehicle Coordinators. We found that agencies do not always ensure that their assigned vehicles are receiving maintenance in accordance with Fleet Management schedules and that agencies do not ensure the accuracy of assigned vehicle data recorded in CARS. Additionally, as discussed in Chapter 3, we found problems with agency oversight of employees' commuting in state-owned vehicles.

We also found that about 6,000 vehicles, or about half of all state-owned vehicles registered in Colorado, are maintained outside of the centralized fleet. Current state statutes have been interpreted to exclude most vehicles greater than three-quarter ton. State agencies report owning about 1,600 vehicles that are three-quarter ton or larger, including pickup trucks, cargo vans, dump trucks, and passenger buses, none of which are currently included in the State's centralized fleet. Since the fleet was centralized in 1992, the types, sizes, and weights of vehicles have changed substantially. Vehicle manufacturers now make a variety of vehicles, including lightweight pickup trucks, that exceed three-quarter ton.

The goal of the General Assembly, when establishing the State's centralized vehicle fleet in 1992, was to increase economies of scale and provide overall cost savings to the State through both reduced acquisition prices and administrative overhead. Although the number of vehicles maintained outside of the centralized fleet is substantial, new legislation enacted in the 2004 Legislative Session will likely expand the number of vehicles excluded from the centralized fleet further. Statutes now authorize higher education institutions to establish their own motor vehicle fleet systems. About 1,260 vehicles, or 21 percent of the approximately 6,000 vehicles in the centralized fleet, are currently assigned to higher education institutions and could potentially be moved outside of the fleet.

In light of the control weaknesses identified in this audit and the impact of statutory changes on the centralized fleet in the future, the Department and Fleet Management should review statutes and strengthen accountability mechanisms to ensure the centralized fleet accomplishes the purposes intended by the General Assembly. This should include strengthening the monitoring and enforcement mechanisms so that agencies are held accountable for managing the State's fleet effectively. Fleet Management currently has authority for implementing these mechanisms, but is not using them to the extent it could.

First, Fleet Management needs to develop formal agreements with Executive Directors of state agencies setting forth the specific duties assigned to each agency. Agreements should clearly set forth enforcement mechanisms and Executive Directors should be required to signoff on the agreements annually. Second, Fleet Management should provide regular reports on agency-specific vehicle data and require agencies to review, correct, and certify the reports for accuracy on a periodic basis. Third, Fleet Management should conduct risk-based on-site inspections and monitoring reviews of state vehicles assigned to agencies. Periodic reviews would put agencies on notice that they will be held accountable for carrying out their duties effectively. Fourth, Fleet Management needs to establish a system of progressive, incremental penalties for agencies that repeatedly violate rules governing state vehicles. This should include establishing a penalty or fee schedule and developing criteria for vehicle revocation. Finally, the Department should work with the General Assembly to clarify the types of vehicles that should be included in and excluded from the centralized fleet. The Department should collect information on the vehicles maintained outside of the centralized fleet, consider the costs and benefits of centralizing these vehicles, and propose statutory revisions as appropriate.

Recommendation No. 14:

The Department of Personnel & Administration should strengthen accountability and enforcement mechanisms for the centralized fleet by:

a. Establishing written agreements between the State Fleet Management Program and agency Executive Directors, setting forth assigned duties and enforcement mechanisms.

b. Providing periodic reports to state agencies including, but not limited to, vehicle odometer readings and vehicle modifications, and requiring state agencies to make corrections and certify as to data accuracy.

c. Conducting periodic on-site, risk-based reviews of state agencies with assigned vehicles for compliance with state statutes and rules.

d. Developing a system of incremental penalties and fees for repeated violation of rules governing state vehicles, including criteria for revoking vehicles.

e. Working with the General Assembly to clarify the types of vehicles included in and excluded from the centralized fleet.

Department of Personnel & Administration Response:

a. Disagree. Roles and responsibilities of SFM and of agencies are outlined in our rules. Therefore, the Department does not believe separate written agreements are necessary. Executive Directors are responsible for ensuring compliance with numerous rules covering departmental operations, such as State Personnel Board Rules and Director's Procedures, State Fiscal Rules, Procurement Rules and Statewide Travel Management Rules. None of these rules require written agreements between the oversight program and the Executive Director.

b. Partially agree. Implementation Date: Ongoing. With sufficient additional funding and FTE, this recommendation could make the data somewhat more accurate. However, all agencies have online access to the CARS system and are able to view all vehicle data and update for data accuracy at any time. We believe this self-service automation is much more cost-effective than SFM providing periodic reports. In fact, the Department has made efforts to replace distribution of paper reports to agencies with self-service data access in order to reduce paper, achieve costs savings, provide more timely data and realize efficiencies.

c. Partially agree. Implementation Date: Ongoing. SFM agrees that it can establish more active monitoring through analysis of CARS data subject to the availability of resources. As part of SFM's monitoring, we would perform an on-site review should a situation arise for which it is deemed necessary.

d. Partially agree. Implementation Date: Ongoing. Please see DPA's response to Recommendation No. 7d.

e. Agree. Implementation Date: January 2006. SFM believes it would be in the best interest of the state to expand the requirements of SB92-30 to include all vehicles. The Bill, in its current form, limits a centralized program from reaching the full potential of cost savings to the State.

Auditor Addendum:

As we discuss throughout the audit report, agency accountability and accurate data are critical to ensuring "the efficient and economical operation of the State's centralized vehicle fleet," Fleet Management's statutory charge. Agency agreements are used to elevate awareness of and compliance with significant state policies. For example, the Fiscal Responsibility and Accountability Act [Section 24-17-101 C.R.S., et seq.] requires agency Executive Directors and presidents of institutions of higher education to certify to the Department that their agency/institution "has instituted and maintains systems of internal accounting and administrative control and is in substantial compliance with the requirements of the statute."

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