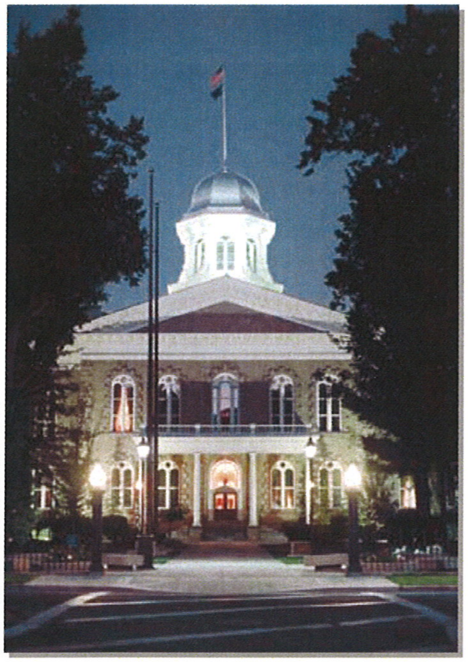

State of Nevada
Department of Administration
Division of Internal Audits

Audit Report

Vehicle Fleet Management

Report No. 10-07
June 2010

EXECUTIVE SUMMARY
Vehicle Fleet Management

Objective 1: Can the State Enhance it Non-Managed Passenger Vehicle Usage?

The State should consider transferring its non-managed passenger vehicles to Motor Pool and imposing a higher minimum mileage requirement per vehicle. Nevada has a lower ratio of employees to passenger vehicles than 17 other sampled states. This could be attributable to a higher number of non-managed vehicles and no or lower mileage requirements. Non-managed vehicles have no mileage requirements, while Motor Pool requires 500 miles per month. Other states require on average 1,100 miles per vehicle. Some of the states represent that fleet management and higher mileage requirement leads to efficient and effective use of state vehicle resources.

Transferring non-managed vehicles to Motor Pool and requiring higher mileage per vehicle will result in fewer vehicles thereby generating an estimated one-time benefit of $2.1 million when the excess vehicles are sold. Additionally, an estimated annual benefit of approximately $1.2 million could result by not replacing these vehicles.

Objective 2: Can the State Enhance its Take Home Vehicles Policies?

The State can enhance its take home vehicle policies by establishing an independent approval and subsequent review process for all these vehicles. Nevada does not have an independent approval and review process for take home vehicles. We compared the number of take home vehicles to the number of employees in Nevada and 8 other states. We determined Nevada has approximately 450 more vehicles than the average of these states. An independent approval and review process could assess the appropriateness of take home vehicles.

INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the State's Vehicle Fleets Management. Our audit focused on passenger and take home vehicles.

Role and Public Purpose

The State of Nevada owns approximately 3,600 passenger vehicles. Some state agencies such as the State Motor Pool (Motor Pool) and Nevada Highway Patrol have managed fleets while others such as Agriculture and Wildlife have non-managed fleets. Managed fleets are overseen by individuals with expertise in vehicle fleet management. A fleet manager's responsibilities include but are not limited to ensuring vehicles are allocated efficiently, replaced as needed, maintained according to manufacturer requirements, and meet minimum usage requirements.

Alternatively, some of these responsibilities may not be performed in non-managed fleets because vehicles are assigned to individuals whose primary functions are different from fleet management. In the absence of fleet management, vehicle use is not optimized and maintenance schedules may not be followed.

For the purposes of this report, passenger vehicles are vehicles with gross vehicle weight rating of less than one ton which includes sedans and trucks. All terrain vehicles, motorcycles and trailers are excluded.

Scope and Objectives

We began the audit on October 26, 2009. Our audit addressed whether the State can increase the efficiency and effectiveness of the its vehicle fleets, by bringing non-managed passenger vehicles under fleet management and enhancing policies regarding take home vehicles. During the audit, we reviewed source documents, and interviewed a sample of Nevada State agency representatives. We also surveyed other states to determine their fleet administration practices. We concluded field work and testing on March 24, 2010.

Our audit focused on the following objectives:

- ✓ Can the state enhance its non-managed passenger vehicle usage?
- ✓ Can the state enhance its take home vehicle policies?

The Division of Internal Audits expresses appreciation to the management and staff of several Nevada state agencies including:

- Department of Administration,
- Department of Agriculture,
- Department of Corrections,
- Department of Public Safety,
- Department of Transportation,
- Department of Wildlife, and
- Office of Attorney General

for their assistance and cooperation throughout the audit.

Contributors to this report included:

Vita Ozoude, CPA, CMA, MBA
Executive Branch Auditor

Paul Chalekian, Ph.D.
Executive Branch Auditor

Department of Administration[1]
Response and Implementation Plan

We provided draft copies of this report to the Department officials for their review and comments. The Department's comments have been considered in the preparation of this report and are included in Appendix C. In its response, the Department accepted all recommendations. Appendix D includes a timetable to implement our recommendations.

NRS 353A.090 specifies that within six months after the Executive Branch Audit Committee releases the final audit report, the Chief of the Division of Internal Audits shall evaluate the steps the Department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The Chief shall report the six-month follow-up results to the Committee and Department officials.

The following report contains our findings, conclusions, and recommendations.

[1] As this is a statewide audit, the report is being submitted to the Department of Administration.

Can the State Enhance its Non-Managed Passenger Vehicle Usage?

The State can enhance its non-managed passenger vehicle usage by transferring them to Motor Pool. Additionally, requiring a higher minimum mileage per vehicle will result in fewer vehicles. We believe these steps will provide an estimated one-time benefit of $2.1 million when excess vehicles are sold. Additionally, an estimated annual benefit of approximately $1.2 million could result from not replacing these vehicles.

Ratio of Employees to Passenger Vehicles – Nevada and Other States

Nevada has a lower ratio of employees to passenger vehicles than the average of 17 other states we surveyed. For the states surveyed, see Exhibit I.

Exhibit I

Ratio of Employees[2] to Passenger Vehicle

State	Employees to Vehicles
Nevada	**4.3**
Colorado	5.4
Florida	6.8
Georgia	9.0
Kansas	2.6
Maine	5.9
Maryland	6.0
Missouri	8.1
Nebraska	3.7
New Mexico	6.5
North Dakota	4.5
South Dakota	2.7
Tennessee	11.4
Utah	6.0
Vermont	9.3
Washington	5.5
Wisconsin	7.4
Wyoming	3.4
Avg. # of employees per vehicle - other states	**6.1**

[2] Excludes university systems.

The excess passenger vehicles are primarily due to Nevada having a higher number of non-managed vehicles and a lower usage requirement.

Transfer Non-Managed Passenger Vehicles to Motor Pool

Approximately 42 percent of Nevada's passenger vehicles are not under fleet management. See Exhibit II. These vehicles are purchased by the agencies based upon availability of funds.

Exhibit II

Nevada's Passenger Vehicle Fleets

Oversight	Number of Vehicles	Percent of Vehicles
Managed	2,100	58
Non-Managed	1,500	42
Total	3,600	100

Non-managed fleets are inefficient. Agencies with non-managed fleets purchase vehicles based on availability of funding. Non-managed fleet vehicles are often assigned to employees who have no fleet management experience. Additionally, without fleet management of vehicles or the ability to move the vehicles from one agency to another, utilization of the vehicle is not optimized.

We surveyed 17 states with fleet management of passenger vehicles (See Exhibit I). Some of these states represent that fleet management leads to efficient and effective use of state resources. For example, fleet managers, who are knowledgeable in their fields, make decisions on use, maintenance, and purchase of vehicles.

Nevada should consider transferring non-managed passenger vehicles to Motor Pool.

Increase Mileage Requirements

Motor Pool requires 500 miles per passenger vehicle per month, while non-managed fleets generally have no usage requirements. We surveyed other states to determine whether these state have mileage requirements for their passenger vehicles. The 12 states[3] that provided information on vehicle utilization

[3] Colorado, Georgia, Illinois, Maine, Maryland, Missouri, Nebraska, New Mexico, North Dakota, Utah, Washington, Wisconsin

require on average 1,100 miles per vehicle per month. If Nevada increased the usage requirements, it would require fewer vehicles.

Nevada should consider increasing the monthly mileage requirements to 1,100 miles.

Benefits of Fleet Management with Increased Usage Requirements

Fleet management benefits the State because it:

- Provides oversight and assurance of minimum usage.
- Moves underutilized vehicles to areas where their use will be optimized.
- Tracks and provides information such as mileage data, repair, and maintenance costs to decision makers.
- Eliminates redundancies by consolidating resources and processes within one agency.

Fleet management and higher usage requirements would result in lowering the number of vehicles the State must maintain. We estimate the state could reduce its non-managed fleet size by about 700 passenger vehicles.[4] A smaller fleet would provide a one time benefit by selling the excess vehicles. The estimated net average salvage value of a passenger vehicle is approximately $3,000.[4] Therefore, selling the excess vehicles would result in a one time benefit of $2.1 million.[5]

Reducing the fleet size would also lower ongoing costs, such as:

- Insurance – The state pays $333 in insurance costs[4] for each vehicle in its fleet. A reduced fleet would save the state about $233,000 in insurance costs annually.[4]
- Vehicle Replacement Cost – The state replaces vehicles on an ongoing basis. Therefore, reducing the fleet size would reduce vehicle replacement costs by approximately $1.2 million annually.

To develop these savings and have Motor Pool oversee additional vehicles, the State would incur additional costs. Approximately $353,000 in salaries, benefits and overhead costs[4] would be needed by Motor Pool to manage the additional vehicles.

Exhibit III below summarizes one-time and annual savings that will be generated as a result of consolidating the non managed passenger vehicles under Motor Pool.

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[4] See Appendix A.
[5] $2,100,000 ($3,000 salvage value x 700 excess vehicles).

Exhibit III

Summary of Estimated Monetary Benefits

One-time Excess Vehicle Sales	**$2,100,000**
Annual Savings	
Insurance Savings	$233,000
Reduced Vehicle Replacement Costs	$1,300,000
Less: Motor Pool Personnel Costs	$(353,000)
Annual Savings	**$1,180,000**

Recommendations

1. Consider transferring all non-managed passenger vehicle fleets to the Motor Pool.

2. Consider increasing the minimum monthly mileage to 1,100 miles per passenger vehicle.

Can the State Enhance its Take Home Vehicle Policies?

The State can enhance its take home vehicle policies by establishing an independent approval and subsequent review process for all these vehicles.

A take home vehicle is a state owned vehicle, which is assigned to an employee who drives it to and from their residence on a daily basis. The vehicle is stored at the employee's residence.

Below are the agencies with take home vehicles. See Exhibit IV.

Exhibit IV

Nevada's Take Home Vehicles

Agency Name	Number of Vehicles
Colorado River Commission	6
Department of Conservation and Natural Resources	32
Department of Administration	2
Department of Business and Industry	30
Department of Corrections	18
Department of Information Technology	11
Department of Motor Vehicles	29
Department of Public Safety	652
Department of Transportation	87
Department of Wildlife	41
Division of Child & Family Services	21
Gaming Control Board	5
Nevada Liquefied Gas Board	2
Office of Attorney General	41
Office of Veteran Services	1
Public Utilities Commission	4
Total	**982**

Comparison of Nevada's Take Home Vehicles to Other States

To ensure take home vehicles are appropriately assigned, Nevada should establish an independent approval and review process for all take home vehicles. We compared the number of take home vehicles to the number of employees in Nevada and 8 other states.[6] We determined Nevada has more take home vehicles per employee than these states. Nevada has a take home vehicle for every 16 employees while these states on average have a take home vehicle for approximately every 30 employees.

Based on the ratio of take home vehicles to the number of employees, we determined that Nevada has 450 more take home vehicles[7] than the average of these states.

Establish Independent Approval and Review Process for Take Home Vehicles

Annually, state agencies complete a take home vehicle survey. The survey requests that agencies provide details, explanations, and reasons for their take home vehicles. The State uses information from the survey to determine the total number of take home vehicles and compute fringe benefit for some employees as required by the Internal Revenue Service. We reviewed all the take home vehicle survey documentation submitted by State agencies and found that only 24 percent had all the required information. Therefore, the appropriateness of some take home vehicles could not be determined.

Independent Approval and Review Process

Currently, Nevada does not have an independent approval and review process for take home vehicles. An independent approval and review process could assess the appropriateness of take home vehicles.

The Board of Examiners (Board) could approve all take home vehicles. Additionally, State agencies could submit documentation to the Board for periodic review to ensure continuing compliance. The documentation needed for the review process should include support for the basis of the take home vehicle such as logs.

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[6] Florida, Georgia, Illinois, North Dakota, South Carolina, South Dakota, Utah and Wisconsin.
[7] See Appendix B.

Recommendations

3. Consider requiring agencies to submit take home vehicle applications to the Board for approval.

4. Consider requiring periodic review of all take home vehicles by the Board.

Appendix A

Estimated Costs and Savings

Below are our calculations of excess vehicle, insurance savings, vehicle replacement cost savings, and estimated motor pool costs.

Excess Vehicles

Other States – Number of Employees per Passenger Vehicle	6.1
Nevada – Number of Employees per Passenger Vehicle	4.3
Percentage Calculation of Excess Vehicles (6.1[8]- 4.3[9])/6.1	30%
Total Number of Vehicles to be Replaced ((2,400[10] - (2400x4.3)/6.1) (rounded))	700

Insurance Savings

Number of Excess Vehicles	700
Insurance Cost per Vehicle	$333
Total Insurance Savings (700 x $333[11]) (rounded)	$233,000

Vehicle Replacement Cost Savings (Rounded)

Average Vehicle Cost[12] (All types)	$18,000
Average Salvage Value of Vehicles[12]	$3,000
Average Vehicle Cost less Salvage Value ($18,000 - $3,000)	$15,000
Average Vehicle Replacement Schedule (Years)[12]	8
Estimated Annual Depreciation Cost Savings ($15,000/8) x 700	$1,300,000

[8] Other states average – Number of passenger vehicles per employee.
[9] Nevada – Number of passenger vehicles per employee.
[10] Motor Pool – Approx. 900 vehicles, Non-managed fleet –1,500 vehicles. Total 2,400 vehicles
[11] Insurance data received from Risk Management and the Office of Attorney General.
[12] Calculation based on representations from Motor Pool.

Estimated Motor Pool Costs[13] (Rounded)

Salaries, Benefits and Overhead for Employees	$342,000
Upgrade One position	11,000
Total Estimated Salaries, Benefits and Overhead	$353,000

[13] Amount based on Division of Motor Pool's estimated staffing requirements.

Appendix B

Excess Take Home Vehicles

Below are our calculations of excess take home vehicles.

Excess Take Home Vehicles

Other States – Number of Employees per Take Home Vehicle	29.7
Nevada – Number of Employees per Take Home Vehicle	16.0
Percentage Calculation of Excess Vehicles (29.7-16.0)/29.7	46%
Total Number of Take Home Vehicles	982
Excess Take Home Vehicles (978 x 46%) (rounded)	450

Appendix C

Department of Administration
Response and Implementation Plan

JIM GIBBONS
Governor

STATE OF NEVADA

ANDREW K. CLINGER
Director

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MEMORANDUM
June 15, 2010

TO: William Chisel, CPA, Administrator
Division of Internal Audit

FROM: Andrew K. Clinger, Director
Department of Administration

SUBJECT: Response to Fleet Audit

Please find below the Department of Administration's response to the audit conducted by the Internal Audit Division regarding the State's vehicle fleets:

Objective 1: Can the State Enhance its Non-Managed Passenger Vehicle Usage?

Audit Recommendations

1. Consider transferring all non-managed passenger vehicle fleets to the Motor Pool Division.

2. Consider increasing the minimum monthly mileage to 1,100 miles per passenger vehicle.

Department Response

1. The Department accepts this recommendation. Transferring non-managed vehicles to the Motor Pool Division will centralize fleet management services, reduce redundancy, and increase utilization of the fleet which will result in a cost savings to the state.

Implementation of recommendation one (1) should be done through the attrition of the current non-managed fleet vehicles. As these vehicles cycle out of service the replacement vehicles would be leased from the motor pool. This process will allow the motor pool to grow at a manageable rate and should be fully implemented within a six (6) to eight (8) year period if agencies follow the current seven year or 100,000 mile replacement cycle.

2. The Department agrees the State needs to have a statewide utilization policy and agrees this policy will bring significant cost savings to the state. However, the Department is not comfortable with the 1100 mile threshold and recommends the fleet committee be tasked with creating a utilization allocation model for agencies to submit for justification of a vehicle. The approval process and body would have to be determined and the utilization model could be in place by September 1, 2010.

   The Department recommends vehicles targeted as extremely low use 250 miles or less usage per month should be immediately reviewed for possible surplus or reallocation, this would be the first phase in a multiple phase process and will bring an immediate cost savings to the state.

   Controlling vehicle utilization is a challenging task and must be done in manner that ensures the fleet is cost effective; yet allows agencies to retain their ability to function and serve the citizens of the state in a timely manner.

Objective 2: Can the State Enhance its Take Home Vehicles Policies?

Audit Recommendations

1. Consider requiring agencies to submit take home vehicle applications to the Board for approval.

2. Consider requiring periodic review of all take home vehicles by the Board.

Department Response

1. The Department agrees with recommendation one (1) and agrees the current policy should be updated to ensure it fits within the current mission of the state. Implementation of this policy change could be achievable by October 1, 2010.

2. The Department agrees with recommendation two (2). This recommendation should be reasonably achievable by requiring agencies to semi-annually submit a "Take Home Vehicle" summary report to the Board and could be achievable by October 1, 2010.

Andrew K. Clinger, Director

Appendix D

Timetable for Implementing Audit Recommendations

In consultation with the Department, the Division of Internal Audits categorized the four recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The Department should begin taking steps to implement all recommendations as soon as possible. The Department's target completion dates are incorporated from Appendix C.

Category 1: Recommendations with an anticipated implementation period of less than six months.

Recommendations	Time Frame
2. Consider increasing the minimum monthly mileage to 1,100 miles per passenger vehicle. (page 7)	Sep 2010
3. Consider requiring agencies to submit take home vehicle application to the Board for approval. (page 10)	Oct 2010
4. Consider requiring periodic review of all take home vehicles by the Board. (page 10)	Oct 2010

Category 2: Recommendation with an anticipated implementation period exceeding six months.

Recommendation	Time Frame
1. Consider Transferring all non-manage passenger vehicle fleet to the Motor Pool Division. (page 7)	Jun 2017

The Division of Internal Audits shall evaluate the action taken by the Department concerning report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Committee and the Department.