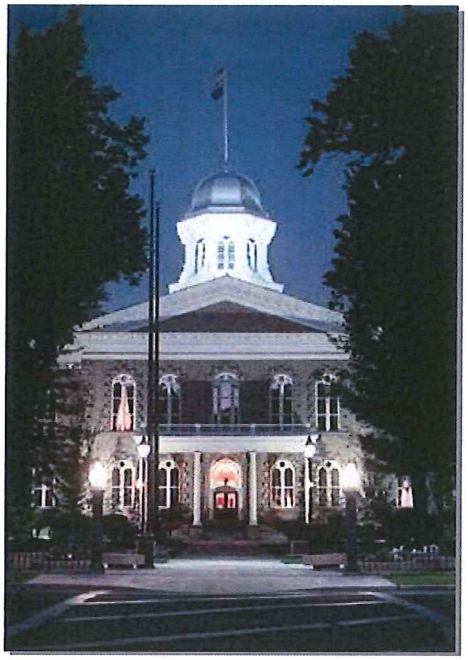

State of Nevada
Department of Administration
Division of Internal Audits

Audit Report

Department of Administration

Fleet Services Division

Report No. 16-07
June 2016

EXECUTIVE SUMMARY
Department of Administration
Fleet Services Division

Objective: Does the Statewide Vehicle Leasing Program Effectively Meet the Needs of the State?

Developing a statewide leasing program that integrates short and long-term leasing and vehicle procurements will allow the Fleet Services Division increased management flexibility to more efficiently and effectively support state agencies. The current state leasing program does not take advantage of all leasing programs available to state governments. Surveys of other states show varying approaches in providing statewide vehicle fleet services. Nevada's long-term program is intentionally limited because the division is concerned about using a higher cost option to acquire vehicles for state agencies.

Currently, the division leases nine vehicles through the Master Service Agreement (MSA) vendor to support four state agencies. The division is concerned about the process agencies have in place to determine whether or not leasing a vehicle is appropriate. NRS states the division is tasked to ensure economical utilization of state-owned vehicles, to provide a ready means of transportation for state employees, and to provide a central administrative facility for the maintenance, care and operation of selected state-owned vehicles. The current leasing program does not integrate cost considerations and agency vehicle procure requirements.

Collecting data to monitor the performance of the MSA vendor will help the division ensure the vendor is performing in accordance with the contract. The data will also inform how effectively and efficiently the contract meets the state's vehicle fleet needs. The contract monitor, the Purchasing Division, is not evaluating the vendor's performance because it does not collect MSA-user data and does not have the expertise to review the data.. The MSA fell to a sole vendor and consequently, the state accepted the vendor's stated standards for the contract. A review of the contract terms revealed the MSA vendor is not meeting some of the original MSA's scope of work. However, the Fleet Services administrator indicated the division has been able to work through these instances of noncompliance with the original scope of work. Moreover, because there are only nine vehicles currently leased through the MSA, there is minimal impact on statewide fleet requirements.

INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the Department of Administration (department), Fleet Services Division (division). Our audit addressed the following four questions:

- ✓ What is the division's role?
- ✓ What services must the division provide?
- ✓ Is the state the proper level of government to provide these services?
- ✓ If state government is the appropriate level of government, is the division carrying out its duties efficiently and effectively?

Our audit focused on the division's vehicle leasing program.

Division's Role and Public Purpose

The division is one of nine in the department and is funded by the state general fund, highway fund, and interagency transfers. The division's budget for fiscal year 2016 was approximately $12 million. Exhibit I summarizes the division's revenues. The division is authorized 15 full-time equivalent staff.

Exhibit I

Fleet Services Division Funding Sources
Fiscal Year 2016

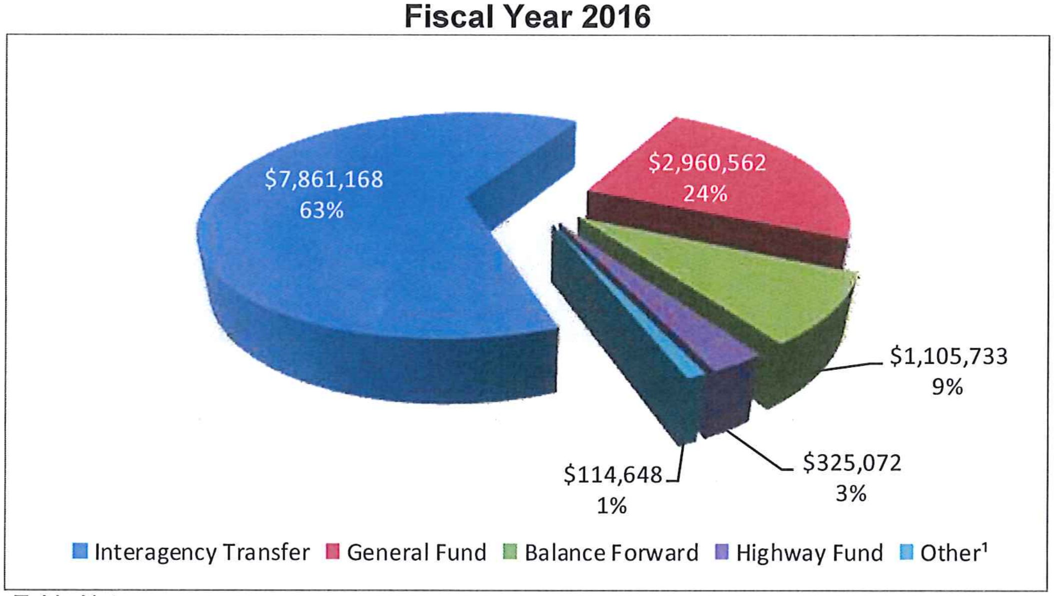

Table Note:
[1] Other revenues consist of insurance recoveries, reimbursement of expenses, prior year refund transfers, and excess property sales.

The division's mission is to provide safe, efficient, environmentally friendly, and cost-effective transportation solutions for state agencies and employees. The division provides a wide range of vehicles for state agencies. Additionally, the division provides services, such as car washes, maintenance and repair services, smog check, and roadside assistance.

The division currently has ownership and responsibility for almost 980 vehicles. Approximately 900 of the vehicles are assigned to state agencies, with the remaining 80 vehicles available for daily use.

Proper Level of Government

The state is the proper level of government to provide these services because they involve managing vehicle needs to support state agencies.

Objective and Scope

Our audit focused on the following objective:

- ✓ Does the statewide vehicle leasing program effectively meet the needs of the state?

We began the audit in February 2016. In the course of our work, we interviewed staff from the Fleet Services Division, Purchasing Division, Nevada Highway Patrol, State Fire Marshall, and the Budget Division and discussed processes inherent to the division's responsibilities and state vehicle requirements. We reviewed division records for fiscal years 2015 and 2016, applicable Nevada Revised Statutes (NRS), and other state guidelines. We also surveyed other states, comparing fleet management practices for vehicle acquisitions. We concluded field work and testing in April 2016.

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing.*

We express appreciation to the division administrator and other state staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Warren Lowman
Executive Branch Audit Manager

Lynnette Aaron, CPA, MBA
Executive Branch Auditor

Fleet Services Division
Response and Implementation Plan

We provided draft copies of this report to the division and other state officials for their review and comments. Their comments have been considered in the preparation of this report and are included in Appendix A. In its response, the division accepted our recommendations. Appendix B includes a timetable to implement our recommendations.

NRS 353A.090 specifies within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the division has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and division officials.

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

Does the Statewide Vehicle Leasing Program Effectively Meet the Needs of the State?

The statewide vehicle leasing program can more effectively meet the needs of the state by:

- Developing a statewide vehicle fleet program that integrates short and long-term leasing and vehicle procurements;
- Collecting data from agencies using the master service agreement (MSA) to monitor the performance of the vendor; and
- Collaborating with the Budget and Purchasing Divisions to establish the Fleet Services Division as the gatekeeper for all vehicle purchases and leases in the state.

This will allow the divisions to more effectively provide vehicle fleet services for the state.

State Vehicle Fleet Program Should Integrate All Leasing and Procurement Options

The division should develop a statewide vehicle fleet program that integrates short and long-term leasing, and vehicle procurements. This will ensure greater fleet management flexibility and efficient vehicle support for the state.

State Not Optimizing Leasing and Procurement Options

The state leases and procures vehicles for state agencies. The current state vehicle fleet program does not take advantage of all leasing programs available to state governments. This limits the division's flexibility in managing the vehicle fleet.

- **Leasing** – The division has two separate leasing contracts: short-term lease (daily rental or less than a month) with NASPO Value Point and a long-term lease through a MSA (longer than a month).[1] Leasing allows the state to meet immediate, unplanned vehicle requirements. While the state has many options for short-term lease vendors, there is only one vendor for long-term leases.

  The current state leasing program does not include other leasing opportunities, such as leasing programs offered by U.S. vehicle

[1] National Association of State Procurement Officials.

manufacturers. Ford and General Motors corporations offer long-term leasing agreements specifically designed for state and local governments. Some advantages include: low fixed-rate financing, vehicle ownership with $1.00 buyout at term end, no excess wear and tear charges, and no mileage restrictions. However, these lease agreements are limited by the manufacturer's production timeframe.[2]

- **Procurement** – The division's procurement program includes purchasing approximately 74 replacement vehicles annually. According to division information, procurement is the most cost effective option for acquiring vehicles because of the government price level the state receives.

  For example, according to the division's website, the state can purchase a sport utility vehicle (SUV) for approximately $25,411.[3] NHP is leasing four SUVs through the MSA for $5,052 per year over a three year contract. Applicable costs are detailed in Exhibit II. As a result, pursuing the lease option would cost the state approximately $24,000 more than ownership of the vehicles.[4] This is a 21 percent increase in cost.

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[2] Government vehicles are manufactured between October and April.
[3] Average price for a 2016 Chevy Traverse AWD based on Purchasing Division's contract for vehicles.
[4] For the purposes of this analysis, total vehicle life is assumed to approximate state approved replacement criteria of seven years.

Exhibit II

7 Year Life-Cycle Cost Comparison

		Lease		**Buy**
Acquisition Cost[1]	$	60,624	$	101,644
Year 1 Operating Expense[3]	$	1,536	$	1,536
Year 2 Operating Expense	$	1,536	$	1,536
Year 3 Operating Expense	$	1,536	$	1,536
Acquisition Cost[2]	$	64,671	$	-
Year 4 Operating Expense	$	1,536	$	1,536
Year 5 Operating Expense	$	1,536	$	1,536
Year 6 Operating Expense	$	1,536	$	1,536
Year 7 Operating Expense	$	1,536	$	1,536
Total Ownership Costs	$	136,047	$	112,396
Difference			**$**	**(23,651)**

Table Notes:
[1] Current lease term is for three years.
[2] A second lease is required to compare with the state approved replacement criteria of seven years. NHP anticipates entering into a second lease. Acquisition cost was adjusted for inflation.
[3] Operating expenses were provided by Fleet Services Division. The division budgets operating expenses at a cost per mile of $0.04 and average miles per year of 9,600 for each vehicle.

NRS states the division is tasked to ensure economical utilization of state-owned vehicles, to provide a ready means of transportation for state employees, and to provide a central administrative facility for the maintenance, care and operation of selected state-owned vehicles.[5] Consequently, the state needs a flexible, integrated vehicle fleet program to support agencies as efficiently as possible. The division administrator believes multiple forms of long-term leasing as well as a well-planned procurement program can best meet the needs of the state.

Other States' Approaches Vary in Leasing Vehicles

We surveyed several states and found varying approaches in providing statewide vehicle fleet services. For example, Michigan obtains a majority of its vehicles through leasing. The most noted benefit for Michigan is the vehicle fleet is relatively newer in comparison to other states. Michigan reports it saves on maintenance and other ownership costs while having a higher annual outlay-per-vehicle for leased, rather than purchased, vehicles. Oregon recently evaluated using a lease program as part of the statewide fleet services program and determined leasing was more expensive and not a good option. Other states we

[5] NRS 336.030.

surveyed use a blend of leasing and purchasing to meet vehicle needs.[6] In these states, in general, the operating plan is to minimize the use of leases because of the higher cost.

Nevada's Long-Term Lease Program is Intentionally Limited

According to the division administrator, long-term leasing is a newer component of state fleet management operations. The long-term lease program began in fiscal year 2015. Nevada does not have significant experience or data in the costs and benefits of leasing vehicles in its fleet. Currently, the division leases nine vehicles through the MSA vendor to support four state agencies. See Exhibit III for a summary of current leases.

Exhibit III

Nevada Vehicle Leases Through the MSA Vendor

Department	Number of Vehicles
Nevada Highway Patrol	5
Nevada Department of Wildlife	2
State Fire Marshal	1
State Medical Board	1
Total	9

The MSA leasing contract is not broadly used because the division is concerned about using a higher cost option for acquiring vehicles for state agencies. Additionally, the division is concerned about the process agencies have in place to determine whether or not leasing a vehicle is appropriate. Consequently, the division has attempted to minimize the use of the MSA vendor. The current leasing program does not integrate cost considerations and agency vehicle procurement requirements.

Developing a statewide leasing program that integrates short and long-term leasing and vehicle procurements will allow the Fleet Services Division increased management flexibility to more efficiently and effectively support state agencies.

Division Needs More Data to Monitor Vendor Performance

The division should collect data from agencies using the MSA to monitor the performance of the vendor. This will help the division ensure the vendor is performing in accordance with the contract.

[6] Georgia, Florida, and Washington.

MSA Vendor Performance is not Being Monitored

The MSA vendor's performance is not being effectively monitored. The contract monitor is not evaluating the vendor's performance because it does not collect MSA-user data and does not have the expertise to review the data. This data would include compliance with delivery requirements and other contract terms.

Currently, the Purchasing Division has responsibility for monitoring MSAs; however, the expertise for vehicle leasing is in the Fleet Services Division. We found separate user agencies are collecting performance data but it is not being used to evaluate the vendor. Moreover, the Fleet Services division is concerned agencies may not understand how to use the data that is being collected to help manage the state vehicle fleet.

Fleet Services and Purchasing Divisions agree that Fleet Services should be the contract monitor for the vehicle lease MSA. To effectively monitor the MSA vendor, Fleet Services Division will need to collect vendor performance data from all user agencies.

MSA Vendor Not Performing Optimally

The MSA vendor is performing satisfactorily although not as optimally as the state had planned. The MSA request for proposal (RFP) process conducted by the Purchasing Division resulted in a sole vendor being awarded the contract.[7] The MSA vendor is not meeting some of the original MSA's scope of work. For example, the MSA RFP required leased vehicles be delivered within ten working days from when the request is made by the using agency. The awarded vendor's response stated it would make it's best effort to meet the ten day requirement but committed only to providing vehicles within 30 to 90 days, which was the industry standard according to the vendor. The MSA RFP required the vendor to deliver leased vehicles to a location designated by the using state agency. In practice, the vendor delivers leased vehicles to a local dealership instead of at the using agency's location. Exhibit IV summarizes instances of noncompliance with the vendor's stated standard for the scope of work.

[7] Two vendors submitted proposals for the state vehicle leasing master service agreement (MSA). One proposal did not meet the standards of review by the Office of the Attorney General, Deputy Attorney General for the Purchasing Division and was deemed unqualified to receive the contract. Purchasing Division awarded the MSA contract to the remaining vendor by default.

Exhibit IV

Instances of Noncompliance

Vehicle	Date Requested	Date Delivered	Length of Time (days)	Requesting Agency	Delivered to Requesting Agency
1	03/26/15	06/29/15	**95**	Nevada Department of Wildlife - Fisheries	X
2	03/26/15	06/29/15	**95**	Nevada Department of Wildlife - Fisheries	X
3	08/06/15	08/31/15	25	State Fire Marshal	✓
4	11/11/15	02/15/16	**96**	State Board of Medical Examiners	X
5	02/02/15	06/04/15	**122**	Nevada Highway Patrol	X
6	02/09/15	06/04/15	**115**	Nevada Highway Patrol	X
7	02/09/15	06/04/15	**115**	Nevada Highway Patrol	X
8	02/09/15	06/23/15	**134**	Nevada Highway Patrol	X
9	02/09/15	06/23/15	**134**	Nevada Highway Patrol	X

Only one out of nine vehicles was delivered within the specified timeframe and delivered to the requesting agency's location. The vendor's best effort did not meet their stated standard.

State's Standard was Compromised Because of a Sole Vendor

The MSA fell to a sole vendor and consequently, the state accepted the vendor's stated standard. The administrator indicated the division has been able to work through these instances of noncompliance with the original scope of work. Moreover, because there are only nine vehicles currently leased through the MSA, there is minimal impact on statewide fleet requirements, according to the administrator.

The state is functioning with a MSA vendor which admittedly could not meet the minimal requirements established in the original scope of work. Collecting data to monitor the performance of the MSA vendor will help the division ensure the vendor is performing in accordance with the compromised contract. The data will also inform how effectively and efficiently the contract meets the state's vehicle fleet needs.

Fleet Services Division Should Collaborate on All Vehicle Leasing and Procurement in the State

The division administrator should collaborate with the Budget and Purchasing Divisions to establish the Fleet Services Division as the gatekeeper for all vehicle purchases and leases in the state.[8] This will ensure agencies acquire appropriate vehicles at the best cost for the state.

There is no centralized state authority to review the appropriateness of agency vehicle requests. Consequently, the state may pay for vehicles beyond what agencies may need. The division is statutorily responsible for managing the state's vehicle fleet.

Collaborating with the Budget and Purchasing Divisions will centralize review and oversight of vehicle acquisition with the Fleet Services Division. This will enhance the effectiveness of state vehicle fleet services.

Recommendations

1. Develop a statewide leasing program that integrates short and long-term leasing and vehicle procurements.
2. Collect data from agencies using the master service agreement (MSA) to monitor the performance of the vendor.
3. Collaborate with the Budget and Purchasing Divisions to establish the Fleet Services Division as the gatekeeper for all vehicle purchases and leases in the state.

[8] As gatekeeper, the Fleet Services Division would have a formal, documented recommendation on vehicle requests. The budget approval process would remain the same.

Appendix A

Fleet Services Division
Response and Implementation Plan

Brian Sandoval
Governor

Patrick Cates
Director

Lee-Ann Easton
Deputy Director

Keith Wells
Administrator

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MAY 24 2016
DIVISION OF INTERNAL AUDITS

May 19, 2016

Steve Weinberger, Administrator
Governor's Office of Finance
Division of Internal Audits
209 East Musser Street, Suite 302
Carson City, NV 89701

Dear Mr. Weinberger:

Thank you for the opportunity to respond to your audit of the Fleet Services Division statewide vehicle-leasing program. Your audit team was courteous, professional and a pleasure to work with. The division agrees with the audit recommendations and looks forward to working with the Purchasing Division in developing a statewide vehicle acquisition strategy that will benefit the State as a whole.

Recommendation #1:
Develop a statewide leasing program that integrates short and long-term leasing and vehicle procurements.

Division Response:
The division agrees with the recommendation and will begin to develop a division specific vehicle acquisition policy and strategy that, incorporates traditional purchasing methods as well as short and long term leasing options.

The division does not have authority to control agency owned vehicle acquisitions. However, the division agrees to collaborate with the Purchasing Division to develop a statewide vehicle purchase and leasing program that will replicate the strategy and policy of the Fleet Services Division where applicable. Implementation Time Frame – June 2017.

Recommendation #2:
Collect data from agencies using the master service agreement (MSA) to monitor the performance of the vendor.

Division Response:
The division agrees with the recommendation. However, the division recommends the monitoring of vendor performance be a joint effort between the Purchasing Division and Fleet Services. The division will collaborate with the Purchasing Division to develop policies, procedures and division specific responsibilities for vehicle leasing contract monitoring. Implementation Time Frame - December 2016.

Recommendation #3:
Collaborate with the Budget and Purchasing Divisions to establish the Fleet Services Division as the gatekeeper for all vehicle purchases and leases in the state.

Division Response:
The division agrees with the recommendation, however due to limited staffing levels this task is currently not feasible for the division to implement at this time. The division recommends discussions begin in state fiscal year 2016 with the Budget and Purchasing Divisions to review the feasibility of the recommendation and to develop a strategy for possible implementation in the FY18-FY19 Biennium. Implementation Time Frame – 07/01/2017.

Sincerely,

Keith Wells,
Administrator

cc: Patrick Cates, Director, Department of Administration
Jeff Haag, Administrator, Purchasing Division
Evan Dale, Administrator, Administrative Services Division
Paul Nicks, Budget Analyst, Budget Division

Appendix B

Timetable for Implementing Audit Recommendations

In consultation with the Fleet Services Division, the Division of Internal Audits categorized the three 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 division should begin taking steps to implement all recommendations as soon as possible. The division's target completion dates are incorporated from Appendix A.

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

Recommendation	Time Frame
2. Collect data from agencies using the master service agreement (MSA) to monitor the performance of the vendor. (page 11)	Dec 2016

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

Recommendations	Time Frame
1. Develop a statewide leasing program that integrates short and long-term leasing and vehicle procurements. (page 11)	Jun 2017
3. Collaborate with the Budget and Purchasing Divisions to establish the Fleet Services Division as the gatekeeper for all vehicle purchases and leases in the state. (page 11)	Jul 2017

The Division of Internal Audits shall evaluate the action taken by the division 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 division.