Internal Audit Report

Report 2021-02
April 11, 2022

Commonwealth of Kentucky
Finance and Administration Cabinet
Division of Fleet Management

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EXECUTIVE SUMMARY

Finance and Administration Cabinet
Office of Policy and Audit

Report 2021-02
April 11, 2022

OPA AUDITED the FAC Division of Fleet Management (DFM) operations for the period between July 1, 2018 and March 31, 2021, except where otherwise noted in the report.

OBJECTIVES included the review and assessment of policies and procedures related to both internal and external agency functions; fiscal management including expenditures, procurement, billing, accounts receivable monitoring, and budget planning; fleet inventory; and compliance with relevant laws and regulations.

FINDINGS IN BRIEF

Finding 2021-02-01: DFM's Control Environment Was Not Conducive to Meeting All Objectives Related to Governing State-Owned Vehicles

Findings identified during the internal audit, when taken as a whole, reflect a pattern indicating the Division of Fleet Management's (DFM) control environment was not sufficient to meet all the objectives intended for governing the state's fleet. The most significant matter addressed in this finding includes that DFM management did not recognize its full statutory authority and the responsibilities entailed in governance over the state's fleet. Additionally, DFM did not have a process in place to assess its operations and plan for future needs, such as assessments of fleet utilization and whether the size of the fleet was sufficient, but not excessive, to meet the needs of the Commonwealth.

Finding 2021-02-02: DFM's Organizational Structure and Employee Job Duties Do Not Cover All Key Functions and Internal Controls

The Division of Fleet Management's (DFM) organizational structure is not properly aligned to ensure it has adequate staffing and adequate assignment of responsibilities to perform many key functions and establish proper internal controls. In assessing personnel needs, the DFM management indicated that it had sufficient staff to perform its required functions. However, the division did not have staff assigned to critical functions. These concerns resulted in internal control weaknesses due to the absence of procedures to monitor compliance, reconcile data, and perform appropriate fiscal management for procurement and contract monitoring.

Finding 2021-02-03: DFM Does Not Perform Sufficient Analysis to Ensure It Meets Internal Service Fund Break-Even Requirements

Evaluation of the Division of Fleet Management's (DFM) operating budget and evaluation of its internal planning process identified that the division does not routinely analyze the results of its operations and budget performance, assess its operating and capital expenditure needs, or perform vehicle lease rate analysis. As a result, its operations are not designed with a break-even objective as required for internal service funds.

FINDINGS IN BRIEF, Continued

Finding 2021-02-04: DFM Does Not Evaluate the Optimal Fleet Size and Composition, and Does Not Consider Vehicles for Replacement in Accordance With 200 KAR 40:020

During the audit, weaknesses were identified in the Division of Fleet Management's (DFM) evaluation of the size, composition, and replacement of the Commonwealth's fleet. These include:

- DFM does not conduct fleet utilization analysis to determine the state's fleet is an appropriate, but not excessive, size and is comprised of the most optimal mix of vehicle types to meet the Commonwealth's needs.
- There does not appear to be a process in place to understand the reasons for under-utilized vehicles and adjust practices accordingly.
- DFM does not evaluate key utilization metrics to plan and project future capital outlay needs for vehicle replacements.
- DFM does not consider the replacement targets in 200 KAR 40:020 Section 4(3) for its vehicle replacement or budgetary decisions. DFM considers the regulation to be unattainable, due to budgetary reasons. However, the process to amend the regulation was also not initiated.

Finding 2021-02-05: DFM Does Not Routinely Evaluate Its Pricing Model or Lease Rates

The Division of Fleet Management (DFM) does not routinely evaluate the rates it charges user-agencies for vehicle leasing and maintenance. According to DFM management, vehicle lease rates were increased in FY 2015 and FY 2016, and rates were decreased in FY 2019 as a result of a legislative request. It is not clear why the rate increases were determined to be necessary; as noted in **Finding 2021-02-03**, a total carryforward of nearly $13.7 million was reported in FY 2016, and a total of $12 million was swept from the Fleet Management Fund in FY 2017 and FY 2018. The rate decreases in FY 2019, as discussed in detail in the finding, led to an excess of expenditures over revenues for the year. Although the Fleet Management Fund had sufficient resources to cover the expenditures, due to a prior year carryforward, the FY 2019 rate change may have a negative impact on the fund in the long-term unless additional fiscal monitoring is performed.

Finding 2021-02-06: DFM Does Not Have a Preventive Vehicle Maintenance Program and Does Not Maintain Accurate Data to Adequately Monitor Maintenance Costs

The Division of Fleet Management (DFM) does not have a preventive maintenance program. Oil changes are required for vehicles, but there are no Fleet Operating System (FOS) routine reports to aid the division in monitoring and planning ahead to determine which vehicles are due for oil changes. Also, there is not a checklist or schedule of other routine maintenance services required for each vehicle.

FINDINGS IN BRIEF, Continued

Finding 2021-02-06: DFM Does Not Have a Preventive Vehicle Maintenance Program and Does Not Maintain Accurate Data to Adequately Monitor Maintenance Costs, Continued

Additionally, DFM does not maintain sufficient data to properly analyze detailed maintenance costs. Although DFM enters maintenance and repair costs into FOS, the data is not reliable because of a lack of good procedures for inputting the data and because it is not reconciled to payment records in eMARS to ensure completeness and accuracy.

Finding 2021-02-07: DFM Did Not Consistently Comply with Small Purchase Procurement Requirements in FAP 111-55-00

Department of Fleet Management (DFM) did not have processes in place to consistently comply with requirements in Finance and Administration Policy (FAP) 111-55-00 - Small Purchase Procedure for Goods and Non-Professional Services. Specifically, DFM's spending reflected exceptions with its small purchase authority and quotation limits.

Finding 2021-02-08: DFM's Billing and Accounts Receivable Monitoring Processes Are Not Adequate to Prevent, Detect, and Correct Errors

Testing of the Division of Fleet Management's (DFM) processes for billing user-agency assessments and accounts receivables for FY 2018 through FY 2020 identified a total of 510 instances in which available documentation was not sufficient to support the amount billed. The test found the following discrepancies:

- Vehicles that appeared to be billed at the wrong rates;
- Excess mileage assessments that did not appear to agree to FOS mileage reports;
- Vehicles assessed for excess mileage without apparent application of the 1,225-mileage threshold that was paid for through the regular monthly assessment;
- Lack of reconciliations between FOS and eMARS to ensure assessments to user-agencies were accurate and complete; and
- Lack of adequate monitoring of accounts receivable, and no policies or procedures in place to address user-agencies with amounts in arrears.

DFM staff discussed its process for reviewing the accuracy of mileage and the ability for agencies to access the system to review and adjust mileage, if necessary. However, documentation was not maintained in a manner that provided an audit trail of the adjustment in order to confirm the billing discrepancies were subsequently corrected.

FINDINGS IN BRIEF, Continued

Finding 2021-02-09: DFM Did Not Have Processes to Confirm GPS Mileage Data Used for Billing

As reported in **Finding 2021-02-08**, Global Positioning System (GPS) units are relied upon to provide the Division of Fleet Management (DFM) mileage data for the majority of DFM-owned and managed vehicles. In fact, GPS mileage was utilized for 12,792 out of 14,402, or 91%, of user-agency bills were analyzed between FY 2018 and FY 2020. However, testing of these records and inquiry with DFM management identified weaknesses in the GPS data. Although DFM recognized the weaknesses, it did not have a routine process in place to consistently detect, confirm, or correct errors in reported mileage.

Finding 2021-02-10: DFM Did Not Have a Clear Understanding of Its Responsibilities for Tasks Assigned to the Office of Budget and Fiscal Management

The Division of Fleet Management (DFM) staff expressed significant reliance on the Office of Budget and Fiscal Management (OBFM) for accomplishing certain business functions such as those related to monthly billing, monitoring expenditures, budget planning and projecting future purchases, and monitoring accounts. However, there was a disconnect between DFM's responsibility to manage and oversee those tasks.

Finding 2021-02-11: DFM Did Not Comply with Certain Statutory and Regulatory Requirements, and Did Not Have Adequate Internal Controls over Monitoring Agency Compliance with Fleet Requirements

Noncompliances were identified in seven statutory and regulatory requirements that fall within DFM's responsibility. Compliance testing covered certain elements of KRS 44.045, KRS 45A.625, 200 KAR 40:010, and 200 KAR 40:020. A matrix of statutory and regulatory noncompliance identified is presented in **Appendix C**.

Additionally, as stated in **Finding 2021-02-01**, the Division of Fleet Management (DFM) has the responsibility to govern the use of state-owned vehicles on behalf of the Cabinet. In addition to establishing rules and regulations, this responsibility should also entail monitoring user activity in a way that promotes compliance.

Finding 2021-02-12: DFM May Benefit from Developing a Customer Service Plan

During the internal audit, the Division of Fleet Management (DFM) and staff reflected genuine dedication to their goal of responding to user-agency motor vehicle needs. Additionally, DFM employees frequently discussed their intent to meet the needs of user-agencies. However, as noted in previous comments, there were also frustrations with regards to what DFM believed to be user-agency failures to adhere to requirements and to properly communicate and address vehicle-related

FINDINGS IN BRIEF, Continued

<u>Finding 2021-02-12</u>: DFM May Benefit from Developing a Customer Service Plan, Continued

incidents and problems. Additionally, DFM management appeared to distance itself from user-agency requirements, stating, “Finance can only address Finance.” Although this is a legal reality for some requirements, it may be a counterproductive reaction that does not promote avenues to really achieve the primary objectives of having an efficient and effective fleet program.

Also, although not tested during the audit, Office of Policy and Audit (OPA) heard anecdotal information from state employees indicating there may be a lack of confidence in agency leased vehicles, motor pool vehicles, and DFM procedures. DFM employees may not believe user-agency criticisms are fair, but it is important for DFM to be aware of the concerns. Otherwise, the complaints draw attention from DFM management’s efforts to improve vehicle utilization, increase agency compliance, and hurt the division’s reputation. All of these matters present indicators that DFM may benefit from developing a customer service plan.

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Holly M. Johnson
SECRETARY

Libby Carlin
EXECUTIVE DIRECTOR

TO: Holly M. Johnson, Secretary

FROM: Libby Carlin, Executive Director LC
Office of Policy and Audit

DATE: April 11, 2022

RE: Report 2021-02: Internal Audit Report of the Commonwealth of Kentucky Division of Fleet Management (DFM) for the Period between July 1, 2018 and March 31, 2021

The Office of Policy and Audit (OPA) has completed its internal audit of the Finance and Administration Cabinet (FAC) Division of Fleet Management (DFM) for the period July 1, 2018, through March 31, 2021. OPA performed this work at the request of the FAC Secretary.

The objectives of the audit as communicated in the engagement letter dated August 5, 2020, included consideration of policies and procedures related to certain agency operational activities; review of expenditures; internal controls related to procurement; inventory reconciliation between DFM, eMARS, and State Risk; and other areas as identified. As a result of risks identified during the audit, OPA expanded this scope to include additional assessments of DFM's fiscal management operations, including budget planning, accounts receivable billing and monitoring, as well as a review of the division's compliance with statutes and regulations.

The report presents 12 findings based on the results of the procedures performed. These findings and recommendations are provided to aid DFM in strengthening its operational framework and to enhance services provided to state agencies. The most significant recommendation is for DFM to develop an internal operating plan to improve operating procedures, including its internal controls, to prevent and detect noncompliance and errors.

DFM was provided a draft report on September 1, 2021, for use in developing its corrective action plan. A revised draft was provided to DFM on November 15, 2021, to present corrections in draft findings based on new information identified. DFM's corrective action plan is presented in the Management's Response section of this report.

We appreciate the assistance and cooperation of DFM's management and employees that participated in this audit. The nature of this report is to present management recommendations for corrective action, and therefore, it does not capture the dedication and commitment of the division's employees. Each employee we worked with expressed a willingness to address any concerns identified.

Please let us know if you have any questions, or how we may be of further assistance to you or others within DFM on these or other matters.

Cc: Geri E. Grigsby, Deputy Secretary
Cassidy Connell, Chief of Staff
John Ard, Fleet Operations Leader
Pete McDonald, DFM Director

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OBJECTIVE, SCOPE, AND BACKGROUND

Objective

The Office of Policy and Audit (OPA) conducted an internal audit of the Finance and Administration Cabinets (FAC) Division of Fleet Management (DFM) at the request of, and with approval of Secretary Johnson pursuant to KRS 42.065(1). OPA's initial plan, as documented in the engagement letter dated August 5, 2020, was expanded based on risks identified during the audit to include an expanded evaluation of the DFM's operations, budget and fiscal responsibilities, compliance with primary KRSs and KARs, external policies, and customer service rendered to the Commonwealth.

Scope and Methodology

The audit covered the period between July 1, 2018, and March 31, 2021, except where otherwise noted in this report. This period was expanded, as noted within the report, as necessary to fully assess and analyze specific objectives. In order to meet the objectives, the audit focused on evaluating whether processes were in place to ensure DFM's policies and procedures were adequate to efficiently and effectively meet its agency objectives while complying with applicable statutes and regulations, monitor external agency compliance with DFM's requirements, and conduct its fiscal operations in a manner to meet future operational needs and adequately plan for these future needs utilizing sound internal controls required by 200 KAR 38:070. Applicable and significant statutes and regulations focused on during the audit include KRS 42.0171(2), KRS 44.045, KRS 45A.625, 200 KAR 40:010, 200 KAR 40:020, and 200 KAR 38:070.

To meet these objectives, OPA conducted research, interviews, complex data analyses, validation, transaction testing, compliance reviews, and operational cost calculations. OPA policies require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions. OPA believes that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

<u>Research</u>

As part of its research for conducting this internal audit, OPA reviewed and analyzed statutes, regulations including Fleet Management Agency and Driver Guides, Finance and Administration Policies (FAP), and other criteria used by the DFM. Additional research was conducted to identify common industry practices related to fleet management, with a focus on governmental fleets to the extent information was available.

<u>Interviews</u>

OPA conducted interviews and follow-up inquiries with various members of DFM management and staff to identify processes in place and practices related to all applicable areas of fleet management operations. OPA also interviewed various other FAC personnel as needed to understand current practices and best practices related to DFM fiscal management, including budgeting, billing, and procurement.

Review and Analysis

Various types of review and analysis methodologies were utilized in order to assess the areas subject to audit, including:

(1) Inventory size and utilization metrics;
(2) Rate calculations and the pricing model;
(3) Budgetary and fiscal analysis, including forecasting vehicle purchase and maintenance needs;
(4) Personnel management and staffing, including the assignment of responsibilities;
(5) Procurement testing, including small purchase authority and for contract compliance with KRS 45A, FAP 111-58-00, FAP 111-55-00, and the Commonwealth of Kentucky Procurement Card Program Policies and Procedures Guide;
(6) Assessment of compliance with KRS, KAR including the Agency and Driver Guides, and other authoritative guidance;
(7) Assessed the data, as it relates to the Fleet Operating System (FOS) used to report and track vehicles and equipment activities; and
(8) Used results of analysis and testing to determine whether customer service improvements are needed to improve user-agency confidence in DFM.

Data from the Enhanced Management Accounting and Reporting System (eMARS) and Fleet Operating System (FOS) were used to capture procurement and utilization information, reports and other data. The activity was tested and analyzed on a sample basis to the extent necessary to assess specific objectives and risks. Therefore, OPA did not review or assess 100% of transactions and/or data available. OPA believes the methodology used involved sound audit procedures and was sufficient to support the conclusions reached.

Background

Fleet Management History

The statewide motor pool of vehicles was established to provide safe, reasonably priced, necessary, and essential means of transportation throughout the commonwealth for the state government and made available for lease to state agencies. Executive Order 2005-1254, dated November 16, 2005, transferred the administration of fleet services from the Kentucky Transportation Cabinet to the Finance and Administration Cabinet. This order gained legislative approval through Senate Bill 134 of the 2006 Regular Session of the Kentucky General Assembly. At this time, the DFM was incorporated as a division within the FAC Office of Administrative Services (OAS). The Reorganization Plan attached to the order reflects that the transfer would increase OAS staffing by 44 employees.

KRS 45.045(6) authorizes the secretary of FAC to adopt administrative regulations necessary to govern the use of state-owned vehicles. These administrative regulations are codified in 200 KAR

40:010 and 200 KAR 40:020. Additionally, 200 KAR 40:010 incorporates by reference the *Guide for Drivers of the Commonwealth's Vehicles* and the *Agency Guide for the Commonwealth's Vehicles*.

DFM Staffing

When Executive Order 2005-1254 transferred Fleet Management's operations and responsibilities to FAC, the transfer resulted in 44 additional full-time employees joining OAS. However, over time the Division of Fleet Management's staff has decreased by 24 full-time employees. As of June 19, 2021, DFM had a total of 20 full-time and four temporary positions, which included the Division Director. The DFM staff composition is listed in **Table A** below.

Table A
DFM Staff Composition
As of June 19, 2021

Type	Position Description	No. of Filled Positions
Non-Merit Employees		
	Director	1
	Subtotal	**1**
Merit Employees		
	Administrative Branch Manager	1
	Administrative Section Supervisor	3
	Maintenance Supervisor Car Wash	1
	Resource Management Analyst III	1
	Administrative Specialist III	6
	Administrative Specialist II	1
	Maintenance Worker II	1
	Automotive Parts Specialist III	1
	Automotive Tech III	1
	Automotive Tech II	1
	Automotive Tech I	2
	Subtotal	**19**
Temporary Employees		
	Help Desk	1
	Tech Helper T-1 Garage	1
	Administrative at T-1 Garage	1
	T-1 Garage	1
	Subtotal	**4**
	Total Employees	**24**

Source: OAS Executive Director
Note: DFM had a new Inventory Section employee starting July 1, 2021

Fleet Vehicle Inventory by Classification

Services provided by DFM for vehicles it maintains include fueling options, full-service car wash, vehicle replacement and procurement; centralized mileage reporting; motor pool reservations; and roadside assistance. User-agencies may utilize state-owned vehicles in a number of ways. The categories of vehicle use types and the inventory held in each type as of June 30, 2021, are presented in **Table B** below.

Table B
DFM Vehicle Use Types
As of June 30, 2021

Vehicle Use Type	Description	Fleet Owned/ Managed
Agency Leased Vehicles	Vehicles purchased through an FAC Master Agreement and managed by DFM. These vehicles are assigned to an agency, which pays a monthly assessment that covers the cost of maintenance, fuel, insurance, GPS, repairs, and vehicle replacement. Most vehicle classifications have a 1,225 mile per month threshold. An excess per-mile charge is applied for miles driven over the monthly threshold each month.	3,380
Agency Purchased Vehicles	Vehicles purchased by an agency through an FAC Master Agreement. These vehicles are often purchased with federal funds. For a monthly assessment based on a per-mile rate, DFM provides services such as maintenance, fuel, insurance, GPS, and repairs. There is no monthly mileage threshold or excess per-mile charge for these vehicles.	545
Schedule II Vehicles	Vehicles that are near the end of their life cycle. These vehicles have been removed from general use to be repurposed for special use. These vehicles typically do not travel on public roads, but may be in sufficient condition to do so if needed. Agencies pay for use by the mile.	142
Motor Pool Vehicles	Vehicles owned by FAC that are available for temporary use by agencies as needed. Agencies may check out vehicles in the Motor Pool based on availability and need, and pay for use by the mile.	275
Inventory Vehicles	Vehicles that are currently in DFM's inventory, but not in use. The reasons they are not in use may be one of the following reasons: (1) a new vehicle received by Fleet that is not yet ready for use (licensing, decals, etc.); (2) vehicles waiting to be sold; (3) vehicles that are being repaired, salvaged, or are wrecked vehicles being held by DFM for replacement parts; or other uses as need arises.	127
TOTAL		4,469

Source: DFM

Permanently Assigned Vehicles

DFM has the responsibility of overseeing Permanently Assigned Vehicles (PAV), pursuant to KRS 44.045(2) and 200 KAR 40:020. These vehicles are take-home vehicles assigned to a specific individual at a user-agency upon written request to and approval by the FAC Secretary. Agency requests must set forth the reasons the assignment is necessary and is in the best interest of the Commonwealth. As of June 30, 2021, there were 1,032 PAV vehicles, which are detailed by agency in **Table C**.

Table C
Permanently Assigned Vehicles
As of June 30, 2021

Cabinet	Agency	Total
Cabinet for Health & Family Services	Department for Public Health	2
Cabinet of the General Government	Attorney General	18
	Board Of Medical Licensure	5
	Council on Postsecondary Education	4
	Department Of Agriculture	96
	Department Of Military Affairs	11
	Secretary Of State	1
Education Cabinet	Kentucky Educational Television	10
Energy and Environmental Cabinet	Department For Environmental Protection	35
	Department for Natural Resources	260
Finance & Administration Cabinet	Commonwealth Office of Technology	19
	Facilities and Support Services	1
Justice & Public Safety Cabinet	Department Of Corrections	26
Public Protection Cabinet	Department of Alcoholic Beverage Control	36
	Department of Charitable Gaming	6
	Department of Insurance	15
	KY Horse Racing Authority	4
Tourism, Arts & Heritage Cabinet	Kentucky Department Of Parks	9
	Kentucky Fish And Wildlife Resources	131
	Kentucky State Fair Board	1
Transportation Cabinet	Department of Highways	339
	Office of Support Services	3
Grand Total		**1,032**

Source: DFM

Since House Bill 303 of the 2016 Regular Session of the General Assembly, biennial budget bills have included restrictions related to the individuals that the FAC Secretary may approve for a PAV as "…Constitutional Officers, the Court of Justice, Executive Cabinet Secretaries, law enforcement, and those who are assigned vehicles for other public safety purposes." Additionally, the bills include a requirement for a report listing all PAV recipients to the Interim Joint Committee on Appropriations and Revenue by August 1 of each fiscal year. House Bill 352 of the 2020 Regular Session of the General Assembly included language stating, "Should the report not be submitted timely, the entire above General Fund appropriation shall be forfeited and all remaining funds shall lapse to the General Fund."

Employees with a PAV that utilize the assigned vehicle for commuting are assessed a $1.50 charge per day each way to account for the personal use of the vehicle for commuting. However, this assessment does not alleviate the individual's personal responsibility to report any excess over this amount as a fringe benefit on personal income taxes as required by the Internal Revenue Service.

Fleet Budget and Rate Assessments

DFM activity is accounted for as an internal service fund, which means it provides services to other funds, departments, or agencies within the Commonwealth. These types of funds operate on a cost-reimbursement basis. Therefore, this designation is not only an accounting mechanism, but also an operational one that impacts the budgeting, planning, and fiscal management of DFM's activities. Since DFM operations are funded through assessments to user-agencies, it must set its rates as part of the biennial budget process. These rates are communicated to agencies for their separate budget planning purposes.

DFM rates should be established to meet projections of its operational and capital expenditure needs over the biennium. In reality, as the audit identifies, DFM has not historically performed the analysis needed to project its needs, which led to carryforwards that were swept during the budget process in several years.

Fleet Billings to User-Agencies

DFM revenues originate from three sources: monthly assessments, excess fees for agency miles over the vehicle's monthly mileage limit, and fees for use of vehicles from the statewide motor pool. As identified in **Table D**, monthly assessments are DFM's largest revenue source.

Table D
Billings to State Agencies
FY 2018 – 2020

Annual FOS Billings by Revenue Type	2018	2019	2020	Grand Total
Assessment	$ 17,709,810	$ 13,844,169	$ 13,787,354	$ 45,341,333
Excess	7,746,184	7,197,132	6,139,289	21,082,605
Statewide Motor Pool	1,266,053	1,257,574	914,728	3,438,355
Total	**$ 26,722,047**	**$ 22,298,875**	**$ 20,841,371**	**$ 69,862,293**

Source: DFM FOS

DFM tracks mileage for assessment purposes using Global Positioning System (GPS) technology. Since 2020, this data has been provided to employees in Office of Budget and Fiscal Management (OBFM) to prepare bills for user-agencies. Bills are generated on the fifth of each month and as noted earlier, the billing assessment covers maintenance, fuel, insurance, and Global Positioning System (GPS).

DFM also leases vehicles to certain public agencies outside of state government, such as universities. Billings to these agencies are referred to as "Non-eMARS" billings since these agencies do not use eMARS as their primary accounting systems.

FINDINGS AND RECOMMENDATIONS

Finding 2021-02-01: DFM's Control Environment Was Not Conducive to Meeting All Objectives Related to Governing State-Owned Vehicles

Findings identified during the internal audit, when taken as a whole, reflect a pattern indicating the Division of Fleet Management's (DFM) control environment was not sufficient to meet all the objectives intended for governing the state's fleet. To successfully meet its objectives, management in all agencies must incorporate various aspects of internal controls. No aspect is more important than establishing a strong *control environment*. The control environment is the foundation on which an effective system of internal control is established that strives to (1) achieve its strategic objectives, (2) provide reliable financial reporting to internal and external stakeholders, (3) operate its business efficiently and effectively, (4) comply with all applicable laws and regulations, and (5) safeguard its assets. [1] This aspect of management sets the tone and attitude that guides its operations. Throughout the findings in this report, information is presented that reflects concerns that these elements were not a consistent part of the operations. Office of Policy and Audit (OPA) does not make conclusions on the cause, but evidence and inquiries suggest DFM's practices were similar to those in place when DFM was first organized under the Finance and Administration Cabinet (FAC).

A strong control environment is the foundation on which an effective system of internal control is established.

This finding addresses the control environment from its most basic aspect, which is management's understanding of its overarching organizational governance responsibilities. As mentioned, additional findings presented throughout the report contain additional concerns that reflect needed improvements in DFM's control environment.

General Governance

KRS 44.045 is the primary statute for motor vehicles purchased for state use. KRS 44.045, as amended, became effective June 26, 2007. Prior to that date, fleet operations were under the administration of the Kentucky Transportation Cabinet (KYTC). Upon transition of fleet operations to the Finance and Administration Cabinet (FAC or "Cabinet"), the Cabinet's responsibilities related to state-owned vehicles were designated to DFM, a division of the FAC Office of Administrative Services (OAS).

KRS 44.045(6) states,

> The secretary of the Finance and Administration Cabinet may adopt administrative regulations pursuant to KRS Chapter 13A necessary to govern the use of those state-owned vehicles acquired pursuant to the provisions of this section.

[1] IIA IPPF Practice Guide *Auditing the Control Environment*, April 2011

This appeared to be a primary source of confusion within DFM management, as it was stated that statutes and regulations point to the responsibility of FAC, not to DFM specifically. However, DFM management recognized that there was no known historical or current practice for fleet responsibilities to be managed by another area within the Cabinet. DFM's website states, "The Division of Fleet Management provides technical and administrative services as well as procurement support for state vehicle fleet administration."

Additionally, DFM responses to inquiries about monitoring compliance with fleet policies revealed management's belief that DFM did not have the authority to impact state agencies or their procedures, but only had authority over FAC's procedures. Although user-agencies are responsible for ensuring they meet the requirements, KRS 44.045(6) provides FAC the authority and responsibility to govern the use of the vehicles, not only manage them. This authority permits FAC to promulgate the necessary regulations to establish the policies and procedures user-agencies must follow. These regulations have been promulgated in 200 KAR 40:010 and 200 KAR 40:020.

FAC has the authority to govern, not only manage, state-owned vehicles.

The *Agency Guide for the Commonwealth's Vehicles* and the *Guide for Drivers of the Commonwealth's Vehicles* are incorporated into 200 KAR 40:010 by reference. Although these guides are available to agencies, there is no process to ensure agency liaisons or drivers actually review the material. Additionally, because these guides are incorporated into a regulation, routine updates to the guides are procedurally lengthy. However, they are a key source of communication between user-agencies and DFM regarding requirements. Refer to **Finding 2021-02-11** for more information on this area.

To be effective, DFM must fully embrace its role in meeting the Cabinet's responsibility to govern state-owned vehicles. This includes having an active management role in both establishing and monitoring policies and procedures for user-agencies.

Operational Planning

The audit identified the division's functions focused on managing available assets, but weaknesses existed in formally assessing operations and operational planning. Examples for which DFM did not have a formal operational planning process includes:

- **Replacement of vehicles**. In general, DFM purchased vehicles based on the amount of funds remaining in its budget after meeting its operational needs during any given budget cycle. There was not an assessment or plan of future expected replacements. Therefore, budgetary planning for replacements was not based on meeting the regulatory goal of replacing vehicles at 140,000 miles or seven years or another objective. Therefore, budget planning for DFM was based primarily on historical trends and not based on needs analysis. Planning budgets in this manner prevented DFM from understanding its actual needs and communicating the impact on its operations from various budgetary decisions, such as sweeps of carryforwards. See **Findings 2021-02-03** and **2021-02-04** for more information.

- **Fee assessments and budget analysis.** As an internal service fund, DFM operations should be geared toward a break-even objective. This does not mean that DFM's fiscal results will actually break-even each year, but that the division has a plan reflecting its intent for assessment revenues to reimburse its anticipated costs. This objective involves projecting needs and setting assessment rates to meet those needs. This type of analysis is not a routine part of DFM operations. As a result, DFM passively managed its revenues, meaning that it managed the revenues it collected, but did not analyze rates each biennium to determine funding needed to meet future objectives. Refer to **Finding 2021-02-05** for more information.

  When asked if its budget planning involved both needs assessment and rate analysis, DFM management indicated that it basically managed what it got, that it had no control over its budget. Analysis of budget requests identified that DFM's budget requests were generally approved. Even so, it lagged behind in vehicle replacements and did not meet its regulatory replacement goals as noted above, and simultaneously encountered $12 million in budget sweeps since 2016, as reflected in **Table 3.1** in **Finding 2021-02-03**.

- **Fleet Utilization and Size.** In discussions with DFM management about the "right size" of the state's motor pool, it was indicated that DFM has tried to maintain about the same level of vehicles that it acquired from KYTC in 2007. There was no analysis performed to identify what would be the right size of the state fleet based on utilization or other factors.

  Despite having information available, vehicle utilization was not monitored on a regular basis. Per a report issued in June 2021 by the Legislative Oversight and Investigation Committee, DFM management indicated during a September 13, 2019, Program Review and Investigations Committee meeting that underutilized vehicles were a major issue to address in 2016. However, utilization still was not analyzed or addressed through updates to DFM operations or its agency policies and procedures.

  This weakness leads to the possibility of having more state-owned vehicles than actually needed to meet the Commonwealth's needs, which would result in both higher replacement costs and higher maintenance costs over the life of the fleet. Also, DFM may have missed opportunities to implement strategies for improving usage of available vehicles, such as policies to move under-utilized agency-assigned vehicles into the statewide motor pool temporary check-out process. DFM management stated that they typically based their usage and replacement decisions on the requests of state agencies and therefore, did not see this as an area to actively manage. Refer to **Finding 2021-02-04** for more information on vehicle utilization and fleet size.

Recommendations

To strengthen its control environment, DFM must first establish a tone and vision at the top of the division that embraces change. DFM management must establish and effectively communicate written policies and procedures which encompass the full operational responsibilities of the division. To meet this objective, OPA recommends that DFM develop a comprehensive internal operating plan (plan) to address the concerns contained in this report. The plan's objectives should be to establish policies and procedures to fully meet the division's responsibilities involved in governing state-owned vehicles. This may involve the creation of new procedures to analyze the fleet size, utilization, and the development of metrics to assist in budgetary planning and rate analysis.

Additional recommendations in this report identify other matters that should be incorporated into DFM's plan, including procedures to improve compliance, monitoring, training, communications, and customer service elements with both agencies and drivers.

Finding 2021-02-02: DFM's Organizational Structure and Employee Job Duties Do Not Cover All Key Functions and Internal Controls

Division of Fleet Management's (DFM) organizational structure is not properly aligned to ensure it has adequate staffing or adequate assignment of responsibilities to perform many key functions and establish proper internal controls. In assessing personnel needs, the DFM management indicated that it had sufficient staff to perform its required functions. However, the division did not have staff assigned to critical functions, indicating that it may not have the necessary staff or staff with the appropriate experience to perform them. These concerns resulted in internal control weaknesses because of the absence of procedures to reconcile data, monitor compliance, and perform appropriate fiscal management for procurement and contract monitoring.

DFM has experienced a reduction of staff since its transfer to the Finance and Administration Cabinet (FAC). According to the Reorganization Plan attached to Executive Order 2005-1254, a total of 44 full-time employees were transferred to FAC as a result of DFM's transfer from the Kentucky Transportation Cabinet (KYTC). However, as of June 30, 2021, DFM only had a total of 20 full-time employees and four temporary workers. The reason for this decline in staffing is not known, but the reduction may be one explanation for the current organizational deficiencies.

DFM's staffing level decreased by a total of 20 full-time employees since its transfer to FAC.

Misaligned Management Responsibilities

DFM management functions appeared to be misaligned, with much of the responsibility for operational planning and oversight of the state's fleet performed by the Office of Administrative Services (OAS) Executive Director without significant input from the DFM Director. The OAS Executive Director performed an analysis of fleet inventory and utilization when requested by another party, initiated and made purchasing decisions and addressed the majority of all inquiries made to DFM from Cabinet management, legislators, and auditors.

The DFM Director appeared to primarily focus on garage operations and certain administrative functions such as the approval of Procurement Card transactions, but often deferred inquiries to the OAS Executive Director regarding fleet responsibilities. The Director's position description, however, identified the primary responsibilities being budgeting and accounting functions, and compliance with state and federal requirements. Additionally, this position includes tasks related to recommending policy regarding the enforcement of state and federal laws and regulations, as well as communicating the policies and procedures to agency heads. Written and verbal inquiries with the Director did not identify that any of these responsibilities were within his purview.

Since operational planning and analysis did not appear to be a routine function for DFM management, the misalignment developed over time to address what was seen as non-routine inquiries and requests rather than recognize the analysis, planning, and decision making to be central to meeting its responsibilities. Additionally, the misalignment of responsibilities may have unintended consequences of limiting staff development and consolidating too much knowledge and experience into one person.

> *The misalignment of responsibilities may limit staff development, consolidating too much knowledge and experience into one person.*

No Employees Assigned to Critical DFM Job Functions

The Office of Policy and Audit (OPA) identified certain job functions for which no employee was assigned to carry out the responsibilities. In part, this is because DFM operations did not have processes established to meet these responsibilities and did not identify the functions as part of a routine job function. These job responsibilities are presented below.

Reconciliations
DFM operations should include reconciliations of data used to ensure the completeness and accuracy of data used for key processes. Reconciliations may act as both a detective and preventative internal control, which gives DFM the ability to detect calculation errors, omitted information, and even identify data integrity problems caused by technology glitches. The reconciliations that appear to be key to DFM's operations include but are not limited to: reconciling GPS data used to ensure accuracy in billing to the Fleet Operating System (FOS) (**Findings 2021-02-08** and **2021-02-09**); reconciling receipts to user-agency billing to monitor collections of agency assessments (**Finding 2021-02-08**); and reconciling FOS vendor and inventory data to eMARS (**Finding 2021-02-06**). The reconciliations are required to ensure completeness and accuracy of expenditure coding used for budget monitoring, planning, and inventory reporting.

Monitoring Statutory and Regulatory Compliance
DFM did not respond to inquiries about the job classification or individual responsible for monitoring compliance with requirements related to vehicle use, or inquiries about who is responsible for evaluating and updating policies and procedures to ensure compliance requirements are met. Although the Division Director's position description indicated this was part of the responsibilities of the director's role, no employee was identified as actually having responsibility for this area. During the audit, significant compliance weaknesses were identified in DFM's monitoring of agency requirements, such as not obtaining annual reports from agencies with agency-specific fleets. Additionally, DFM was found to have weaknesses in meeting its own requirements (**Finding 2021-02-11**). Therefore, it is important for OPA to assign an employee, or employees, with the specific responsibility for ensuring internal and external compliance monitoring.

<u>Procurement Analysis and Contract Management</u>
DFM did not identify a division employee responsible for procurement planning based on its annual expenditure needs. As a result, DFM overused the Procurement Card to make purchases for vehicle repairs and services instead of entering into contracts for these services (**Finding 2021-02-07**). The division's operations are very heavily involved in procuring vehicle repairs and other services. Therefore, analyzing these expenditures and establishing contracts through the appropriate procurement process, as well as managing the contracts after they are executed, should be a vital and significant role for the division.

As noted, weaknesses in personnel management resulted in the weaknesses in internal controls as described above because the division did not always have sufficient staff or staff with the appropriate experience to perform the functions. "Internal control" is defined in 200 KAR 38:070(6) as a procedure or activity implemented to provide reasonable assurance that the agency achieves effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws, administrative regulations, policies, and procedures.

Additionally, 200 KAR 38:070(3) states (as excerpted),

> An internal control plan shall include the following:
> (a) Organizational structure and alignment of job duties that provide the appropriate segregation of duties for the proper safeguarding of agency assets to prevent one (1) individual from controlling or processing a transaction from beginning to end.
> (e) Reconciliation of agency accounts on a timely basis.
> (i) Cost-effective control activities to address identified risks that may result in improper or unnecessary payments.
> (k) System of monitoring compliance with internal control and pre-audit procedures.

Recommendations

As part of developing its internal operating plan, OPA recommends DFM assess whether it has sufficient staff numbers and skill sets to meet its agency objectives and perform procedures to ensure proper internal controls are in place to:

- Reconcile data used in billing and other functions;
- Monitor compliance with statutes, regulations, and other legal requirements to safeguard assets; and
- Meet procurement requirements.

Improving the performance of these functions may identify the need for additional staff. Therefore, it will be important for DFM to work with the Office of the Secretary, Office of Budget and Fiscal Management, and OAS Division of Human Resources to determine and plan for both the availability of funding and available positions to meet its needs. Additional recommendations in this report present additional areas for consideration related to staff planning.

Finding 2021-02-03: DFM Does Not Perform Sufficient Analysis to Ensure it Meets Internal Service Fund Break-Even Requirements

Evaluation of the Division of Fleet Management's (DFM) operating budget and evaluation of its internal planning process identified that the division does not routinely analyze the results of its operations and budget performance, assess its operating and capital expenditure needs, or perform vehicle lease rate analysis. As a result, its operations are not designed with a break-even objective as required for internal service funds.

The Commonwealth's Annual Comprehensive Financial Report (ACFR) presents the Fleet Management Fund as an internal service fund. This type of fund accounts for goods and services provided to other funds, departments, or agencies of the same government on a cost-reimbursement basis. Therefore, fees generated from these activities are only intended to reimburse the fund for the cost of the activity. As such, the funds are intended to have an objective to essentially break-even over time.

The administration of the Fleet Management Fund is DFM's sole activity. Therefore, it is important that its operating model follows this cost-reimbursement basis geared to break-even over time. The division does not have routine processes in place to analyze its budget for planning purposes or to respond to changes in operating needs in a way that reflects its intent to have a cost-reimbursement objective. This finding focuses on DFM's operating model, including an assessment of its budgetary performance. **Findings 2021-02-04** and **2021-02-05** present additional information on expenditure needs analysis and rate assessments, respectively.

DFM's operating model should be focused on cost recovery or breaking even over time.

Government Accounting Standards Board (GASB) Statement 34 ¶393 defines Internal Service Funds as:

> National Council on Governmental Accounting (NCGA) Statement 1, as amended, defines internal service funds as those used to 'to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

Additionally, guidance presented in the Government Finance Officers Association *Government Accounting, Auditing, and Financial Reporting* (GAAFR) defines cost reimbursement by indicating that the goal of an internal service fund is to recover the full costs of providing goods and services. The GAAFR continues by clarifying that the revenues do not have to balance every period, but that a "significant and ongoing surplus would indicate that charges to customers were more than what was needed to reimburse costs."

Budgetary Performance

DFM did not have a formal process to evaluate its budget performance. Discussions with DFM management indicated that it primarily based its budget requests on historical trends and relied on the FAC Office of Budget and Fiscal Management (OBFM) to let it know if anything needed to change. Instead of planning, management said it utilized whatever budgeted funds were needed for regular operations, and purchased vehicles with whatever amount was projected to remain. One flaw in this methodology is that it pushes purchasing decisions until later in the fiscal year. Also, it prevented DFM from having a sufficient understanding of its budgetary performance and monitoring performance goals, such as vehicle replacement objectives as mentioned below. This prevented DFM management from being able to pinpoint and communicate the impact budgetary constraints had on the composition or condition of the statewide fleet.

Partially due to the lack of analysis and performance targets, the Fleet Management Fund accumulated significant budget carryforwards derived from funds collected in excess of revenues over expenditures. A total of $12 million of these excess funds were swept for other budgetary uses between FY 2016 and FY 2020, as depicted in **Table 3.1**.

Table 3.1
Summary of Financial Activity
FY 2016 – FY 2020

Financial Element	Fiscal Years				
	2016	2017	2018	2019	2020
Total Revenues	$ 30,308,291	28,006,482	27,940,723	22,622,475	21,646,968
Total Expenditures	22,487,577	23,712,136	22,123,118	24,952,330	25,650,582
Excess Revenue Over(Under Expenditures	7,820,714	4,294,346	5,817,604	(2,289,855)	(4,003,614)
Prior Year Carryforward	5,872,018	13,692,732	11,987,078	11,804,682	9,514,827
Budgetary Sweep		6,000,000	6,000,000		
Total Available (Current Carryforward	**$ 13,692,732**	**$ 11,987,078**	**$ 11,804,682**	**$ 9,514,827**	**$ 5,511,213**

Source: eMARS

As early as 1998, there is language within budget bills of the Commonwealth to authorize the use of excess revenues from restricted funds, which would include excess revenues collected by DFM for fleet operations. Budget bills became specific in this transference through the years, including language that established authority for the movement. This authority continued to be presented in each budget bill, until the 2020 Regular Session, as the language and authority were not included in House Bill 352 of that session.

It is not clear why DFM did not monitor and analyze its budget performance to adjust either its level of spending or amounts assessed for vehicle leases to agencies more regularly. It appears DFM had sufficient justification to increase capital outlay to improve the condition of the statewide fleet. However, as discussed in **Finding 2021-02-04**, DFM did not work toward an objective to replace vehicles in line with regulatory replacement guidance, even in the years it had funding available for more purchases. Although there may be valid justifications for these past practices, information available during the audit did not identify intentional business purposes for accumulating the carryforwards without a plan to utilize them for increased capital outlay.

No Break-Even Objective

The frequency and amounts of the carryforwards are indicators that DFM did not operate with a break-even focus. For internal service funds, it is expected that agency needs are routinely projected and assessment rates are then adjusted to meet those projected needs after factoring in resources available from prior year carryforwards. Using this type of analysis, over time, the fund would continually self-correct.

As seen in **Table 3.1**, revenues exceeded expenses until FY 2019. This significant decrease in revenue is due to the implementation of a new pricing model that changed the vehicle lease rates assessed. DFM management indicated this pricing model change resulted from an objective given to the division to decrease assessments to agencies in 2017. Other than this assessment performed in 2017, there is no other evidence to indicate that periodic rate assessments were performed. Rate assessments and DFM's pricing model are further discussed in **Finding 2021-02-05**.

Recommendations

Office of Policy and Audit (OPA) recommends that DFM develop budgetary and operating analysis procedures as part of its internal operating plan to reflect a cost-reimbursement and break-even objective. Specifically, DFM should identify an individual to task with the responsibility of high-level financial analysis, including the cost-reimbursement calculations and break-even analysis. This individual should not only perform calculations but monitor ongoing activity to help identify changes.

It should be noted that OBFM hired an individual prior to the completion of this report tasked, in part, to assist DFM with various fiscal responsibilities. DFM can implement proper internal controls while utilizing more detailed assistance from OBFM, but DFM management should be actively involved in considering the results and for any related decision making.

Finding 2021-02-04: DFM Does Not Evaluate the Optimal Fleet Size and Composition, and Does Not Consider Vehicles for Replacement in Accordance With 200 KAR 40:020

During the audit, weaknesses were identified in the Division of Fleet Management's (DFM) evaluation of the Commonwealth's fleet size and composition, as well as in vehicle replacement planning. These include:

- DFM does not routinely conduct fleet utilization analysis to determine the state's fleet is an appropriate, but not excessive, size and is comprised of the most optimal mix of vehicle types to meet the Commonwealth's needs.
- There does not appear to be a process in place to understand the reasons for under-utilized vehicles and use that information to adjust practices accordingly.
- DFM does not evaluate key utilization metrics to plan and project future capital outlay needs for vehicle replacements.
- DFM does not consider the replacement targets in 200 KAR 40:020 Section 4(3) in its vehicle replacement or budgetary decisions. DFM considers the regulation to be unattainable due to budgetary reasons. However, the process to amend the regulation was also not initiated.

Total Number and Composition of Vehicles in the Fleet

There does not appear to be a clear understanding of the number of fleet vehicles needed to meet the Commonwealth's needs. DFM management initially indicated it maintains a target fleet of approximately 4,800 vehicles, stating it is approximately the level of vehicles FAC acquired when the fleet transferred to FAC from the Kentucky Transportation Cabinet (KYTC). DFM subsequently revised the inventory to approximately 4,300-4,400 vehicles, stating that the difference is due to vehicles that are now in agency-specific fleets.

Due to a lack of any analysis or evaluation, DFM cannot substantiate that the number of vehicles maintained provides "…reasonably priced, necessary, and essential vehicular transportation."[2] This type of analysis could lead to a reduction in the number of vehicles DFM maintains or identify opportunities for DFM to adjust its policies and practices to optimize the usage of vehicles in the fleet, thereby creating cost savings.

Utilization Review

The Office of Policy and Audit (OPA) reviewed vehicle utilization for FY 2018, 2019, and 2020 using two metrics:

1) Actual mileage compared to the monthly mileage thresholds assessed for all DFM owned/managed vehicles in inventory. This metric provides quick information regarding the utilization of individual vehicles compared to the number of miles included in user-agency monthly assessments; and

2) The percentage of vehicles in the statewide motor pool used per day.

[2] 200 KAR 40:020, Sec 2(b)(2)

Mileage Utilization

Mileage information is derived from three sources. Data from these sources was used during OPA's utilization review:

- Mileage Report from Fleet Operating System (FOS). This report presents monthly Global Positioning System (GPS) mileage for each vehicle that had GPS capability during the year. It is important to note that data from GPS units comprised the largest volume of data used in the evaluation. During the audit, there were concerns identified related to the integrity and completeness of the GPS data (see **Finding 2021-02-09**). As a result, the data integrity issues increase the risk of under-reporting mileage for some of these vehicles.

- Motor Pool Billings. DFM indicated many motor pool vehicles were not equipped with GPS units during the period covered by the audit. In order to record mileage for billing purposes, DFM employees took vehicle odometer readings at the beginning and end of each trip. The mileage was then recorded in the FOS Reservation Module. Therefore, the motor pool billings were used to obtain mileage data for this utilization assessment.

- Schedule II Billings. These vehicles issued to the Tourism, Arts, and Heritage Cabinet have similar manual processes as motor pool vehicles. Agency officials are given access to FOS to enter mileage data into the system for billing purposes. For these vehicles, Schedule II billings were used to derive the mileage data for these vehicles.

Using this data, vehicle usage was evaluated by establishing mileage thresholds to be considered as "under-utilized" levels. Three thresholds were set for the evaluation as vehicles driven less than 5,000 miles, 7,350 miles, and 3,675 miles for each fiscal year. These thresholds were deemed adequate for the utilization assessment for the purposes of the audit since 7,350 and 3,675 miles represents 50% and 25%, respectively, of DFM's annualized monthly mileage limits for leased vehicles. Additionally, the 5,000-mileage threshold was utilized to provide data comparable to a June 2021 report on State-Owned Vehicles issued by the Legislative Oversight and Investigations Committee (LOIC). The utilization data evaluated for these mileage thresholds for each fiscal year is presented in **Appendix A**.

As depicted in the tables in **Appendix A**, 9% of the total fleet was utilized less than the 3,675-mile threshold in FY 2018. The rate increased to 12% and 17% at this threshold for FY 2019 and FY 2020, respectively. Additionally, approximately 27% of the total fleet was utilized less than the 7,350-mile threshold in FY 2018. The number of under-utilized vehicles at the 7,350-mile threshold increased to 30% for FY 2019. As might be expected, the percentage of vehicles identified as under-utilized increased in FY 2020 due to changes in vehicle utilization due to the COVID-19 pandemic, according to DFM.

Nearly one-third of vehicles in the state fleet were driven fewer than 7,350 miles in FY 2019.

These numbers reflect that there appear to be opportunities to decrease the fleet size, to enact changes in policies and procedures to increase utilization averages, or both. Doing so will save money due to the management of fewer vehicles and may also provide DFM the opportunity to improve the average age and condition of vehicles that remain in the fleet, further reducing maintenance and repair costs.

The number of vehicles in the fleet is not the only metric that should be considered, but to have an optimal fleet to meet the Commonwealth's needs. DFM should also consider the types of vehicles most under-utilized. A review of underlying data identified the most under-utilized vehicle type was the agency leased ½ ton 2WD truck. Other under-utilized vehicles include the agency leased compact SUVs, and the agency leased midsize sedans. Providing desirable vehicle types can improve the overall utility, although DFM policies should also consider other factors in assessing the most optimal balance of the fleet, such as age and condition.

Effects of Unavailable Vehicles and Aged Vehicles on Utilization:

The *Ultimate Guide to Understanding Fleet Utilization and Achieving a Right Sized* Fleet co-authored by the National Association of Fleet Administrators and Agile Fleet maintains that vehicles awaiting pre-delivery inspection or are out of service for other reasons affect utilization percentages. These out-of-service vehicles impact utilization rates because even when not in use, these vehicles are incurring costs (e.g., manpower, insurance, GPS fees, etc.)

According to DFM, of the eight different equipment statuses used to identify the current usage of a vehicle, six of them are used for vehicles that are either temporarily or permanently out of use. These six equipment statuses and the vehicles in each inventory classification at the end of FY 2018 through FY 2020 are presented in **Table 4.1**.

Table 4.1
Vehicles Temporarily or Permanently Out of Use
As of the Fiscal Year End FY 2018 – FY 2020

Equipment Status	Description	FY 2018	FY 2019	FY 2020
For Sale	Awaiting sale	34	75	172
Hold	Awaiting re-issuance	30	17	2
Re-Issue	Voluntarily downsized by an agency. Waiting for reassignment	17	18	59
Salvage	Total or wrecked vehicles	69	98	151
T-1 Loander	Assigned to the DFM garage for service	26	24	25
UNAS	New vehicles, awaiting permanent assignment	18	31	95
Total		**194**	**263**	**504**

Source: DFM Inventory

It's important to note that the FOS system utilized by DFM does not maintain a history of changes in equipment status. For example, if the status of a vehicle is "available" for 11 months of the fiscal year, then changed to an "out-of-service" status in June, the year-end report will reflect the vehicle as out of service. Therefore, in the utilization review conducted, OPA included all DFM inventory that was in inventory during the full calendar year regardless of the equipment status in order to provide DFM information with a full picture of the impact on its vehicles. Vehicles that are not in a usable status made up 5% of the total inventory in FY 2018, 6% of the inventory in FY 2019, and 12% of the inventory in FY 2020.

The analysis identified that older vehicles have an effect on utilization. In FY 2018 through FY 2020, vehicles with greater than 140,000 miles made up between 21% and 25% of the vehicles driven less than 7,350 miles. The age of a vehicle impairs a vehicle's perceived performance and may impact the user's confidence in the dependability of the vehicle.

Up to 25% of vehicles driven less than 7,350 miles had more than 140,000 miles.

It may be advantageous for the DFM to study the effects of unavailable vehicles and aged vehicles on utilization in assessing the fleet inventory. This may provide important information for developing changes in policies, benchmarks, and turn-around time goals to enhance fleet operations.

Motor Pool Usage

The second metric evaluated in OPA's utilization assessment relates to the level of vehicles checked out from the statewide motor pool. OPA used motor pool reservation data to generate utilization information for FY 2018 through FY 2020. **Table 4.2** below presents the highest and lowest number of vehicles checked out from the statewide motor pool during the fiscal year.

Table 4.2
Motor Pool: Percentage Utilization
FY 2018 – FY 2020

Fiscal Year	Metric	No.Vehicles Checked Out	Vehicles Available (Year-End Inventory)	Percentage Utilized
2018	Highest Day	242	275	88.0%
	Lowest Day	2	275	0.7%
	Average	183	275	66.5%
2019	Highest Day	241	280	86.1%
	Lowest Day	1	280	0.4%
	Average	180	280	64.3%
2020	Highest Day	231	316	73.1%
	Lowest Day	19	316	6.0%
	Average	156	316	49.4%

Source: FOS Reservation System and Inventory

As the table depicts, the average utilization of the fleet motor pool inventory was between 64.3% - 66.5% in FY 2018 and FY 2019 prior to the pandemic. This means that a significant portion of the motor pool goes unused on any given day. Even looking at only the highest volume days each year, between 12% and 14% of the motor pool is unused, which equates to approximately 33 vehicles in FY

Even on the highest volume days, 12%-14% of the motor pool goes unused.

2018. This analysis alone does not indicate that DFM can reduce the motor pool by that number of vehicles. However, these metrics do reflect that DFM could likely find opportunities to reduce the statewide motor pool fleet size and improve utilization by modifying check out and usage policies.

Additionally, OPA's review identified multiple vehicle types in the statewide motor pool used less than 51% of the time. Three of these types were used less than 51% of the time in *all three fiscal years*. These included:

- ½ Ton Cargo Van
- 12-15 Passenger Van
- ¾ Ton Cargo Van

Additionally, the review identified that the Compact Sedan type was used less than 51% of the time in the most recent fiscal years, FY 2019 and FY 2020. The evaluation by vehicle type is an important element for DFM to consider not only whether the fleet is properly sized, but also whether the types of vehicles meet the Commonwealth's needs. Although there may be periods in which more of the underutilized vehicle types are needed, such as passenger vans, DFM should perform analysis and follow up with research to determine whether other cost-beneficial options other than owning and maintaining vehicles for the entire year exists to meet the Commonwealth's needs during peak times.

A November 2016 blog post[3] from Agile Fleet, provider of the Fleet Operating System (FOS) software, posed the question why vehicle utilization should be measured. The article states, "The answer is: because if you do it right, you can save a lot of money." Additionally, it concluded that the cost savings could come from cost avoidance of vehicles not purchased, less maintenance, insurance, car washes, tags and registration, and reduced staff time to manage the fleet.

Why are utilization assessments so important? They can save money by eliminating unneeded vehicles in the fleet.

Vehicle Replacement Regulation Not Followed

As mentioned above, DFM does not have procedures in place to routinely analyze vehicle utilization or assess the size and composition of the fleet of state-owned vehicles it manages. This is a critical function in managing a fleet, and without it, it is not feasible for the division to ensure it is making purchasing decisions and utilization policies that are in the best interest of the Commonwealth. An effective utilization analysis should also assess the adequacy of its vehicle replacement policy.

[3] *The Agile Fleet* (blog). November 2, 2016. https://blog.agilefleet.com/wondering-what-a-good-vehicle-utilization-rate-is-our-answer-may-not-be-what-you-expect

Current vehicle replacement considerations in 200 KAR 40:020 Section 4 states,

> (3) The cabinet shall consider for replacement a nonexempt motor vehicle that:
> (a) Is seven (7) years old;
> (b) Has been driven 140,000 miles;
> (c) Is inoperable;
> (d) Is unsafe; or
> (e) Is in need of extensive repair that would not be economically feasible.

However, current replacement considerations begin at much higher levels. DFM management has indicated that due to budgetary constraints, vehicles evaluated for replacement begin at approximately 165,000 miles or 10 years old. However, a review of inventory identified many vehicles that exceed that number of miles and age. Given the level of carryforwards discussed in **Finding 2021-02-03**, it is not clear why DFM did not invest more in vehicle replacements to move closer to the vehicle replacement goal established in 200 KAR 40:020.

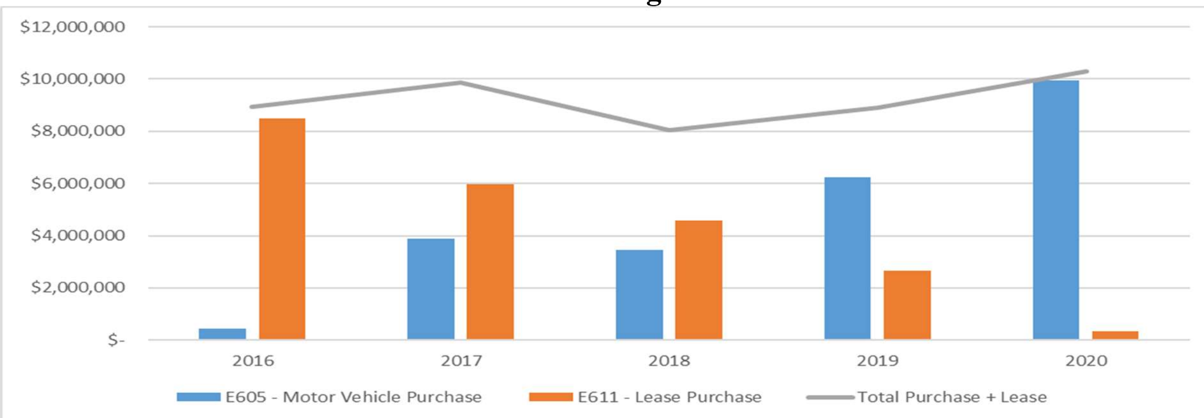
Although an analysis of DFM expenditures might initially appear to reflect a significant increase in vehicle purchases since FY 2018, this is not accurate. The eMARS expenditure object code E605 – Motor Vehicle Purchases increased from approximately $441,928 in FY 2016 to more than $9.9 million in FY 2020. However, this does not reflect a significant increase in the number of vehicles replaced in the state's fleet. When analyzing these expenditures with the amount in object code E611 – Lease Purchase, it becomes more apparent that DFM was going through a phase-out of vehicle leases during that period. By the end of FY 2020, DFM had moved almost entirely to vehicle purchases for replacements instead of vehicle leases. An analysis can be seen in **Table 4.3** and **Graph 4.4** below.

Table 4.3
Vehicle Purchase and Lease Purchases
FY 2016 through FY 2020

eMARS Object Code	2016	2017	2018	2019	2020
E605 - Motor Vehicle Purchase	$ 441,929	$3,893,127	$3,447,778	$6,227,771	$ 9,949,783
E611 - Lease Purchase	$8,490,424	$5,974,171	$4,593,047	$2,667,384	$ 331,468
Total Purchase + Lease	**$8,932,353**	**$9,867,298**	**$8,040,825**	**$8,895,155**	**$ 10,281,251**

Source: eMARS

Graph 4.4
Vehicle Purchase and Lease Purchases
FY 2016 through FY 2020



Source: Data in Table 4.3

This data reflects that in total, expenditures for vehicle replacements remained comparable during the period. This also signals a potential missed opportunity to improve the condition of the fleet and move closer to the regulatory replacement goals.

Recommendations

The OPA recommends DFM:

- Complete a utilization study to determine if the fleet size, age, and condition are optimal to meet the needs of the Commonwealth. DFM should consider working with a consultant, as well as fleet management associations, to develop its utilization metrics and other procedures. Such a study should be periodically evaluated and updated after completion to ensure it stays current to reflect changing needs.

- The utilization study recommended above should be performed prior to purchasing new vehicles. New vehicle purchases should consider both the statutory requirement in KRS 45A.625 regarding fuel efficient vehicles and the appropriate mix of vehicle types to meet the highest user demand.

- The utilization study recommended above should also be used to determine whether changes are needed in regulation, including in the vehicle replacement regulation and the Agency and Driver's guides, to reflect changes in process and policy that will assist DFM in maximizing the utilization of its fleet. For example, DFM should consider establishing policies regarding a process for retracting or repurposing under-utilized vehicles.

- Establish procedures to reduce the number of vehicles in an unused status. DFM should consider vehicles in these classifications as temporary and have an objective to move them out of the Commonwealth's inventory or into a usable status as quickly as possible. DFM may establish an exception for vehicles retained for parts, but since outside vendors perform many repairs, DFM should limit the number of vehicles retained for this purpose unless it can demonstrate the cost-savings incurred.

- Project expenditures based on anticipated needs over the biennium, including operating and capital needs for vehicle replacements.

Finding 2021-02-05: DFM Does Not Routinely Evaluate Its Pricing Model or Lease Rates

The Division of Fleet Management (DFM) does not routinely evaluate the rates it charges user-agencies for vehicle leasing and maintenance. According to DFM management, lease rates were increased in FY 2015 and FY 2016 and were decreased in FY 2019 as a result of a legislative request. It is not clear why the rate increases were determined to be necessary; as noted in **Finding 2021-02-03**, a total carryforward of nearly $13.4 million was reported in FY 2016, and a total of $12 million was swept from the Fleet Management Fund in FY 2017 and FY 2018. The rate decrease in FY 2019, as discussed in detail in this finding, led to an excess of expenditures over revenues for the year. Although the Fleet Management Fund had sufficient resources to cover the expenditures due to a prior year carryforward, the FY 2019 rate change may have a negative impact on the fund in the long-term unless additional fiscal monitoring is performed.

As discussed in previous findings, the lack of routine rate assessments and monitoring is part of a larger concern regarding the financial operations of DFM. **Findings 2021-02-03** and **2021-02-04** present additional information regarding DFM's operating model, including its budgetary performance and lack of needs analysis, including planning for vehicle replacements.

History of Current Rates – Pricing Model

In 2017, DFM management was tasked by the Legislature with reevaluating its pricing model, or in other words, the rate structure for vehicle leases. DFM management indicated the primary goal was to reduce agency income by $4.2 million.

During the evaluation, user-agencies expressed concerns regarding rate differences for comparable vehicles, such as different rates charged for sedans depending on if the vehicle had a Global Positioning System (GPS) unit attached. Therefore, the first action to modify the pricing model was to regroup vehicles into new equipment class codes to eliminate rate differences for comparable vehicles.

After the establishment of new equipment class codes, DFM created two pricing model scenarios.

- Model 1 used a cent-per-mile methodology.
- Model 2 provided a new monthly assessment for each new equipment class code.

DFM management stated that neither model on its own was deemed acceptable. Instead, the Legislature[4] preferred a pricing model that incorporated aspects from both Model 1 and Model 2, as follows:

[4] The term "Legislature" in this context is presented as communicated by DFM management. Clarification was not provided by DFM as to which committee or legislative representatives were involved in this process.

- Agency Purchased Vehicles and Schedule II Vehicles, as defined in **Table 2** in the Objective, Scope, and Background section of this report, were to be assessed using the Model 1 cents per mile methodology.

- Agency Leased Vehicles, as defined in **Table 2**, were to be assessed following Model 2 using newly calculated monthly assessments. In addition to the new rates, new monthly mileage thresholds and excess per-mile rates were also established for these vehicles as noted below.

To finalize the new model, monthly mileage thresholds for Agency Leased Vehicles were increased by 8.9% to 1,225 miles per month for most equipment class codes. Additionally, the rates calculated under Model 2 were further reduced by DFM management for all vehicle classifications in order to achieve the agency revenue reduction goals.

The new pricing model went into effect beginning in FY 2019. In evaluating the new structure, weaknesses were identified that may create long-term issues. These weaknesses are discussed in more detail below.

Lack of Expenditure or Needs Analysis

As explained, the pricing model was created to reduce receipts and carryforwards at a specific point in time and upon request from the Legislature. The model was not developed with an evaluation of expenditures to determine whether the new pricing model would adequately recoup costs, as well as meet long-term needs and objectives of DFM, as described in **Finding 2021-02-03**.

While the pricing model contains some aspects of cost reimbursement for fuel, repair, insurance, and GPS costs in its cent-per-mile methodology (Model 1), it is only used in the rate assessment for Agency Purchased and Schedule II Vehicles. Agency Leased vehicles are billed a monthly assessment, determined through a weighted average rate calculation based on the rates and number of vehicles in each classification under the *old* model. Since the new rates were formulated based on blending the previous rates used, the calculation did not have a direct association with a cost-recoupment objective. During an inquiry with DFM management regarding whether the original rates incorporated full cost-recoupment considerations, such as vehicle replacement costs, management indicated it was not sure what factors went into developing the original rates. It is important to note that most of the vehicles managed by the division are Agency Leased vehicles, so this aspect of the model has the largest impact on revenues and cost-reimbursement.

Further, the current pricing model does not directly incorporate a component for replacement cost in the calculations. DFM management indicated replacement costs are not in a specific calculation, but are considered. Although DFM management did estimate the funding needed to replace vehicles at the level recommended in 200 KAR 40:020, these amounts were not included in the rate assessment calculations.

Finally, the pricing model did not consider future needs, such as potential changes in operating costs (e.g., personnel, maintenance, or repair costs) or vehicle replacement projections. The cost factors considered were based on the actual annual cost for one year related to fuel, repairs, insurance, and GPS costs. Therefore, it was not clear how or if projected amounts were used to evaluate the feasibility of the new rates or their impact on vehicle replacements and condition.

Impact of Pricing Model Change

Analysis of the revenue from agency receipts (R499), identified that receipts were reduced by $4,714,452.05 between FY 2018 and FY 2019, which was the first year of the new pricing model implementation. **Table 5.1** depicts the total agency receipts between FY 2017 and FY 2021. Therefore, the modifications to the pricing model were successful in meeting its goal of a reduction in agency revenues by 4.2 million.

Table 5.1
Total Agency Receipts (R499)
FY 2017 – FY 2021

Fiscal Year				
2016	2017	2018	2019	2020
$ 29,146,471	$ 27,816,666	$ 26,930,107	$ 22,215,655	$ 21,241,235
		Difference = $4,714,452		

Source: eMARS (R499)

Revenues were sufficient to cover expenditures in the Fleet Management Fund until the year the new pricing model went into effect.

However, while the pricing model change was successful in reducing agency revenues, the assessment was conducted as part of one-time project and as discussed above, was performed without consideration of long-term needs. As noted in **Finding 2021-02-03**, throughout this period, revenues exceeded expenditures until FY 2019, the year in which the pricing model was implemented. Although DFM had sufficient resources to cover this deficit, it is an indicator that rates should be closely monitored to ensure costs are being recouped. However, DFM has not performed additional analysis since implementing the new pricing model to determine whether rate or expenditure adjustments are needed.

Recommendations

DFM should routinely perform a rate assessment analysis as part of its biennial budget rate-setting process. The analysis should consider the adequacy of the current pricing model to meet project needs and use that information to develop revenue targets and objectives. During this review, it is imperative that the division consider the overarching objectives of an internal service fund, which is to "essentially break-even over time" as described in **Finding 2021-02-03**.

One pricing model that will allow for a direct relationship between revenues and expenditures is a full costing model, although DFM may identify other models or tailor a model to best meet its needs. Even if DFM's rate determinations are modified by other parties (Cabinet management, legislators, Office of the State Budget Director, etc.), the routine assessment will give the division fact-driven basis for decision making, assessing its operations, and for communicating the impact of changes others may recommend or require.

Finding 2021-02-06: DFM Does Not Have a Preventive Vehicle Maintenance Program and Does Not Maintain Accurate Data to Adequately Monitor Maintenance Costs

The Division of Fleet Management (DFM) does not have a preventive maintenance program. DFM does require oil changes for vehicles, but there are no Fleet Operating System (FOS) routine reports used to aid the division in monitoring and planning which vehicles are due for oil changes. Also, there is not a checklist or schedule of other routine maintenance services required for each vehicle.

Additionally, DFM does not maintain sufficient data to properly analyze detailed maintenance costs. Although DFM enters maintenance and repair costs into FOS, the data is not reliable because of a lack of adequate procedures for inputting the data and because the data is not reconciled to payment records in eMARS to ensure completeness and accuracy.

Because of these limitations, DFM can only analyze maintenance and repair costs in total using eMARS data. The breakdown of these costs is important for procurement planning, such as determining which like-item goods or services should be placed on a contract. Additionally, this information is necessary for analyzing the condition of vehicles. For example, since repair and maintenance costs are combined, the data cannot be used to analyze a specific vehicle or vehicle model that should be prioritized for replacement due to excess repair costs.

Preventive Maintenance

DFM management acknowledged there is not a routine maintenance schedule, and there is not a report that shows vehicle maintenance, such as oil changes, are conducted at specific intervals. DFM indicated that oil changes are monitored through FOS, but other routine or preventive maintenance is scheduled and performed only as the need is identified during the performance of other work. DFM indicated that other preventive maintenance is not scheduled or monitored, although it does perform a multi-point inspection when a vehicle comes in for service to look for problems that require attention. However, not all vehicles are inspected annually.

For oil changes, FOS generates a notification when a vehicle reaches 5,000 miles or six months since the last oil change, whichever comes first. DFM emails this notification to the agency contact for that vehicle, and a reminder is generated and sent weekly until the vehicle obtains an oil change. DFM stated that because of the FOS maintenance reminder email, the volume of oil changes has increased, and other maintenance issues have been identified with the vehicles. However, FOS and Global Positioning System (GPS) data integrity issues discussed in **Finding 2021-02-09** may impact this process since the issues prevent proper mileage reporting in certain situations.

An article from Fleet Maintenance[5] states, "All fleets need to maintain their vehicles and equipment in order to provide safe, efficient and reliable performance, as well as have their vehicles reach their useful life." The article indicates the best way to achieve these goals is to have an aggressive preventive maintenance program. It also indicates that such a program will promote vehicle reliability by preventing potential problems, lower operating costs by reducing downtime and unplanned maintenance, and ensure operational and operator safety, among other benefits.

Maintenance Cost Tracking - FOS Data Integrity

DFM indicated that certain activity codes in FOS are used for tracking maintenance and repair costs. The division provided a list of activity codes used for tracking specific expenditures, such as Codes 100-133 are used for maintenance work, as reflected in **Table 6.1**. Additionally, specific codes are set up for transmissions, wrecks, towing, brakes, etc.

Table 6.1
Consolidated FOS Activity Codes

Routine Maintenance	Emergency Maintenance	Preventive Maintenance
102 Brakes (each)	129 Towing/Recovery (each)	128 Oil Change (each)
101 Tires/Tubes/Wheels (each)	133 Wreck Repair (each)	132 Car Wash (each)
106 Cooling System (each)	107 Axles (each)	
111 Exhaust (each)	109 Electrical Components (each)	
112 HVAC (each)	110 Computer Systems (each)	
119 Hoses/Belts (each)	130 Glass Repairs (each)	
131 Engine Tune Up (each)	118 Steering System (each)	
104 Fuel System (each)		
108 Charging/Cranking System (each)		

*Source: Division of Fleet Management

The ability to track expenditures for each vehicle is a good functionality of the system, but is not properly utilized to ensure the data is reliable. DFM indicated that work tickets are entered into FOS by the employee that performs the work. Whereas some employees may enter the accurate service code, some employees use the same code for all work performed. Analysis of the FOS maintenance data provided by DFM supported this explanation.

The ability to track maintenance and repair costs for each vehicle is a good functionality of FOS; but the data is not reliable under current practices.

Tracking individual vendor invoices in FOS allows DFM to identify the costs associated with each individual vehicle. The use of specific activity codes for each type of service or repair should provide DFM the ability to analyze specific costs to differentiate between services such as routine oil changes versus unexpected repairs. This type of data is necessary to perform life cycle cost analysis, as required in KRS 45A.625(a), to compare costs to assess the cost-benefit of fuel-efficient vehicles. However, the inconsistent use of the appropriate FOS activity codes for maintenance and repair work prevents this type of assessment.

[5] Fleet Maintenance. April 9, 2015. http://fleetmaintenance.com/shop-operations/employees-and-training/article/12053741/best-practices-for-establishing-a-fleet-preventantitve-maintenance-PM-program.com

In addition to concerns over the data integrity at the individual vehicle level, there are also concerns about whether the total expenditures recorded in FOS are accurate. Vendor invoices are submitted to the Office of Budget and Fiscal Management (OBFM) staff to be processed and paid in eMARS; however, DFM does not reconcile the paid invoices from eMARS to the FOS System.

DFM indicated they did not have the time nor staff resources to reconcile FOS expenditures data to eMARS. stating, “No, under the current staffing we do not have the ability to handle the logistics of reconciling 21,000 monthly transactions for forty-five hundred (4,500) vehicles across forty (40) plus agencies.” Because DFM utilizes an in-house system for tracking vehicle maintenance and repair costs, reconciling FOS activity code totals is essential to ensure invoices are paid correctly and that a sufficient level of detail exists to analyze costs at the individual vehicle and equipment classification levels.

Reconciling accounts is essential key internal control for safeguarding assets and detecting errors. Kentucky Administrative Regulation (KAR) 200 KAR 38:070 Section 2 3(e) requires a “reconciliation of agency accounts on a timely basis.” The use of reconciliations further helps minimize the risk of paying invoices twice to vendors or not paying at all. Reconciliations can help detect issues when they arise and would allow DFM the opportunity to correct errors proactively.

As discussed above, the FOS is an off-the-shelf product that does not interface with eMARS. When tracking expenditures in an external system, data integrity becomes even more important to ensure accuracy of the reported information. To effectively meet this objective, FOS activity codes should directly correlate to an eMARS object code so accurate expenditure tracking and monitoring can be accomplished. Although a one-to-one FOS activity code to object code correlation may not be feasible, establishing a clear association between the two will improve the division’s ability to reconcile the data efficiently and differentiate between routine maintenance and unexpected repairs costs when needed.

Recommendations

OPA recommends that as part of its internal operating plan DFM:

- Implement a routine and preventive maintenance program, including the development of a maintenance schedule and procedures to perform the maintenance in-house or through contracted vendors. Although in the short-term, development of such a program may increase DFM’s maintenance costs, DFM may experience decreased costs over time in unscheduled towing and repairs. Additionally, a preventive maintenance program may improve the perceived condition of vehicles over time, thereby improving their utilization. DFM should also consider opportunities to enhance communications with user-agencies and vendors to assist in implementing the programs.

- As part of implementing a preventive maintenance program, DFM should also develop a process to adequately track and monitor that the maintenance schedules are being followed. DFM should develop proper reports to improve the efficiency of monitoring, and policies to address situations in which user-agencies do not comply with the maintenance program requirements.

- Improve the utilization of FOS activities codes for tracking vehicle life-cycle costs, including vehicle maintenance and repair costs. This process requires multiple considerations, such as improving the data integrity of cost data entered into FOS activity codes and developing formal reconciliation procedures for expenditures between eMARS to FOS. DFM should consider working with its vendor or a consultant and the Office of the Controller Statewide Accounting Services to correlate FOS activity codes to eMARS object codes to improve the reconciliation capabilities and to develop efficient and effective procedures.

  As part of this, DFM should create tools to improve the accuracy of information by employees. For example, DFM should consider revising the Updated Service Checklist to include both the service performed and the associated activity code. DFM may also provide additional employee training on entering activity and the importance of accuracy. Alternatively, DFM may choose to assign a limited number of employees the task of entering Service Checklists into FOS.

Finding 2021-02-07: DFM Did Not Consistently Comply with Small Purchase Procurement Requirements in FAP 111-55-00

DFM did not have processes in place to consistently comply with requirements in Finance and Administration Policy (FAP) 111-55-00 - Small Purchase Procedure for Goods and Non-Professional Services. Specifically, DFM's spending reflected exceptions with its small purchase authority and quotation limits.

Like-Item Spending over FAC's Small Purchase Authority

FAP 111-55-00 establishes small purchase procedures for procuring goods and services under an agency's small purchase delegated authority. The FAP requires, "If an agency's projected needs for like items will cost more than it can purchase under its small purchase limit, the agency shall submit a Requisition (RQS) to OPS for commodities and services." Therefore, the FAP requires the establishment of vendor contracts for like items exceeding the agency's small purchase limit. For the period tested during the internal audit, FAC's small purchase authority was set at $20,000. In May 2020, the Office for Procurement Services (OPS) reduced the Finance and Administration Cabinet's (FAC) authority from $20,000 to $10,000. **Table 7.1** below illustrates FAC's small purchase authority and quotation limits.

Table 7.1
FAC Small Purchase Authority and Quotation Limits

Time Period	Limit	1 quote if < than	3 quotes if > than
Beginning May 2020	$10,000	$5,000	$5,000
Prior to May 2020	$20,000	$5,000	$5,000

Source: OPS Small Purchase Authority Delegation and Quotation Limits

Analyzing expenditures for like items after invoices have been processed and paid is a complex process. Office of Policy and Audit (OPA) analyzed expenditures by vendor in an attempt to identify the likelihood of like item purchases that exceed FAC's small purchase limit. This type of analysis would not identify all instances of like items purchased in excess of the FAC small purchase authority since it does not identify the instances of like items purchased from multiple vendors. Additionally, certain types of vendors may sell dissimilar goods and services that would not equate to a like item. However, this analysis was sufficient to narrow in on areas of risks for follow-up.

The analysis for fiscal year (FY) 2019 and FY 2020 identified that DFM surpassed the small purchase limit of $20,000 for 47 vendors without apparent analysis to determine whether these purchases were for like items that should be contracted. The like items purchased included goods and services such as tires, tubes, vehicle parts and supplies, and auto body repair. DFM procured a total of approximately $2,804,722 of goods and services with the vendors over the two fiscal years, as presented in **Appendix B**. Although the conclusion of this analysis identified the risk of noncompliance and not specific instances, DFM and a former Office of Budget and Fiscal Management (OBFM) employee acknowledged that the division does not have a process in place to consistently assess like item needs and contract with vendors for these goods and services.

In addition, FAP 111-55-00 prohibits agencies from parceling, splitting, dividing, or scheduling procurements over time to avoid the intent of the policy. The policy requires agencies to make purchases based on sound business planning with the goals of economy and efficiency in mind. DFM's process involves a significant volume of work to coordinate repairs and maintenance with vendors, but the division did not incorporate a function to assess its business needs through planning as the FAP details. A brief review of the vendor totals in **Appendix B** identifies multiple vendors with annual expenditures exceeding the small purchase authority. As noted above, vendors may sell dissimilar items, so not every vendor listed in **Appendix B** may represent a required contract.

Discussions with DFM staff identified there was an insufficient understanding of the small purchase authority requirements and FAC policies regarding contracting. DFM relies on counterparts in the OBFM for procurement decisions. However, although OBFM does provide procurement and payment services for FAC agencies, it does not have the responsibility for fiscal analysis and planning for each department. Therefore, DFM should be performing the needs analysis contemplated under FAP 111-55-00.

DFM indicated there are practical reasons contracting for like items was not always performed. DFM manages fleet vehicles located across the state, and it has to be responsive to both foreseeable and unforeseeable circumstances that may arise. The division currently utilizes a large number of vendors across the state to meet these needs. Contracting in a way that provides service to all areas and likely needing multiple vendors may be difficult to achieve in some cases. OBFM personnel reiterated these challenges, although it should be noted that once the issue was brought to their attention, discussions began immediately on how to implement changes and rectify the issue going forward.

Procurement Card Single Purchase Limit

As noted above, FAC's small purchase authority limit was decreased from \$20,000 to \$10,000 in May 2020. OPA identified two DFM Procurement cardholders with a single purchase limit that exceeded FAC's new limit of \$10,000 as of September 3, 2020. These two identified cardholders each had single purchase limits of \$15,000.

When changes occur in the small purchase authority delegation for an agency, Procurement Card Administrators should be made aware of the change and must be cognizant of its impact on cardholders. Procurement Card Administrators should then take steps to ensure no cardholder has a single purchase limit that exceeds the revised agency small purchase authority except in cases when there is a documented approved exception. OBFM began taking steps to ensure cardholders do not exceed single purchase limits to prevent this situation prior to the end of this audit.

Poor Internal Controls over Payments

DFM's payment process does not have proper internal controls to provide sufficient detail to reconcile payments to invoices received, which could lead to nonpayment or duplicate payment of invoices. Testing identified purchase orders tracked in FOS that were comprised of an aggregate of multiple separate invoices. The aggregated total was then communicated to the vendor by DFM via telephone and paid with a state issued Procurement Card. Because multiple invoices with the vendor were paid as one transaction without information identifying the individual invoices, the US Bank records cannot be easily traced to individual invoices at the point of sale. DFM also did not reconcile outstanding invoices to payments. This practice creates a risk for missing payments or paying invoices twice.

200 KAR 38:070 addresses the need for agencies to have an internal control plan that safeguards agency assets and provides for the verification of the authenticity, legality, and propriety of transactions, including vendor invoices. As illustrated above, aggregating multiple invoices and posting them as one total weakens the internal control structure, and ultimately puts agency resources at risk.

Recommendations

OPA recommends that DFM:

- Work with OBFM to implement a plan to comply with FAP 111-55-00. Likely, this process will take a significant amount of staff time and resources to implement since DFM operations involve numerous services needed across the state. Therefore, DFM and OBFM may want to structure the plan to focus on a few types of like kind goods and services at a time. It should be reiterated that OPA became aware that discussions between DFM and OBFM to improve compliance in this area are already underway.

- Obtain procurement training for the guidance provided in FAP 111-55-00 Small Purchase Procedures for Goods and Non-Professional Services. The training should address the need to obtain contracts when expenditures for like item goods and services exceed or are projected to exceed FAC's small purchase authority limits. Additional training or discussions should occur regarding the division of responsibility between DFM and OBFM for expenditure planning, procurement, and payments.

- Contact the FAC Procurement Card Administrator to correct the single purchase limits for the two identified cardholders, if not already addressed.

- Develop policies and procedures to improve the internal controls regarding payments of invoices. DFM should avoid aggregating multiple invoices and posting them as one total when doing so loses the invoice detail, making it difficult to monitor which invoices have been paid and when.

Finding 2021-02-08: DFM's Billing and Accounts Receivable Monitoring Processes Are Not Adequate to Prevent, Detect, and Correct Errors

Testing of the Division of Fleet Management's (DFM) processes for billing user-agency assessments and accounts receivables for FY 2018 through FY 2020 identified a total of 510 instances in which available documentation was not sufficient to support the amount billed. The test found the following discrepancies:

- Vehicles that appeared to be billed at the wrong rates;
- Excess mileage assessments that did not appear to agree to FOS mileage reports;
- Vehicles assessed for excess mileage without apparent application of the 1,225 mileage threshold paid for through the regular monthly assessment;
- Lack of reconciliations between FOS and eMARS to ensure assessments to user-agencies were accurate and complete; and
- Lack of adequate monitoring of accounts receivable, and no policies or procedures in place to address user-agencies with amounts in arrears.

DFM staff discussed its process for reviewing the accuracy of mileage and the ability for agencies to access the system to review and adjust mileage, if necessary. DFM indicated that unusual items were reviewed and if adjustments were needed, an email was submitted to OBFM to correct the bill. However, documentation was not maintained in a manner that provided an audit trail of the adjustment in order to confirm that billing discrepancies were subsequently corrected.

Therefore, information was not adequate for OPA to evaluate whether billing discrepancies led to over billing, under billing, or were accurately corrected. Due to the Global Positioning System (GPS) data integrity concerns noted in **Finding 21-02-09**, the most evident risk is the potential for under-billing user-agencies since all mileage may not have been reported.

Monthly Assessments

DFM uses the Monthly Assessment Report as support for the monthly assessment billing charged for Agency Leased Vehicles. Monthly Assessments are by far the largest source of revenue for the Fleet Management Fund.

Office of Policy and Audit (OPA) tested the billing rates, mileage, and applicable charges for the year-end Monthly Assessments from FY 2018 through FY 2020. The testing utilized June 30 fixed asset inventory reports to validate vehicle changes in the billing reports. Therefore, additional errors could exist in the population for the entire year that were not detected through testing performed on a sample basis using year-end reports. The results revealed a total of 141 billing discrepancies over the three-year period tested. A description of the errors by fiscal year of these errors is presented below.

Errors were identified in 141 Monthly Assessment bills to user-agencies over the three-year period tested.

FY 2018

- Forty-one instances in which a vehicle was classified as a standard vehicle but billed at a higher rate as if it had a GPS installed.

- Twelve instances where there was no lease rate listed for a vehicle in FOS. The bills were manually calculated based on rates from a 2016 rate sheet.

FY 2019

- Eight instances where Schedule II vehicles were billed using the old vehicle class code rates, instead of the revised rates and new vehicle class codes implemented in FY 2019, as discussed in **Finding 2021-02-05**.

FY 2020

- Eighty instances where Schedule II Vehicles were billed using the rates for the old vehicle class codes, instead of the rates for the new vehicle class codes implemented in FY 2019.

In each case, it's important to note that OPA's test did not conclude that the amounts billed were inaccurate. As noted above, supporting documentation was not sufficient to identify subsequent DFM or user-agency adjustments and corrections that may have occurred.

Monthly Excess Assessments

DFM staff identified two types of vehicles that pay for excess mileage charges, the Agency Leased and Agency Purchased Vehicles. DFM utilizes a Monthly Excess Report to capture mileage that exceeds a vehicle's monthly mileage threshold, as well as mileage for vehicles billed at a cent-per-mile rate. In GPS vehicles, the mileage is reported automatically to DFM, and each agency has access to FOS to verify the total mileage. Once mileage is uploaded into FOS, user-agencies have five days to review and update the mileage reported. DFM staff does not substantiate the entries from user-agencies.

Charges for excess miles driven on an Agency Leased Vehicle were designed to recoup the added maintenance and fuel costs. This also helps combat the issue of speeding up a vehicle's life cycle because a vehicle has been driven well beyond the normally expected mileage for a year. An example was provided where an agency drives the vehicle 50,000 miles in a year versus the normal 12,000 to 14,000 miles, in essence expediting the vehicles life span. For both vehicle types, these excess charges help DFM recover costs quicker in order to match the usage and aid in the vehicle's replacement, when applicable.

The results of testing revealed a total of 369 monthly excess billing discrepancies over the three-year period tested. A description of the discrepancies by fiscal year is presented below.

FY 2018

- Eighty-six instances in which the Excess Mileage Report did not agree to the GPS Mileage Report, with the report reflecting zero excess miles in sixty of these instances.

<u>FY 2019</u>

- Seventy-five instances in which the GPS Mileage Report did not agree to the amount billed to the user-agency, including 23 instances where the GPS Mileage Report reflected zero excess miles. Additionally, two of the charges contained excess mileage of more than 25,000 miles and one charge was based on an excess of 73,188 miles, resulting in excess mileage bills of approximately $12,051 and $38,790, respectively. DFM indicated its process included follow-up of unusual amounts, such as these, although as mentioned above the documentation of the results of its review was not maintained in a central file.

- Seventy-one instances where Agency Lease - Midsize SUV in which there was a discrepancy between the rate sheet and the assessed rate in FOS for the vehicles.

- Twenty-two instances in which vehicles were billed at the incorrect equipment class code rate.

<u>FY 2020</u>

- Thirty-three instances in which the GPS Mileage Report did not agree to the amount billed to the user-agency, including twenty-one instances where the GPS Mileage Report reflected zero excess miles. One of the charges contained excess mileage of 130,426 miles.

- Nine instances in which the vehicles old equipment class code and rates were used for billing.

- Seventy-three vehicles in which there was a discrepancy between the rate in FOS and the rate sheet.

As with the regular monthly assessments, it is important that documentation related to excess mileage assessments to user-agencies is maintained, including evidence of reviews, verifications, and adjustments performed. The documentation to support the amounts billed is important, especially when questions arise from user-agencies or others after the fact, and to maintain an appropriate audit trail. User-agencies had access to mileage information and the ability to modify mileage reported, which provides an additional review element for bills paid by user-agencies. However, for this to be an effective compensating control, DFM should maintain documentation of the reviews, modifications made, who made them, and verification of accuracy of the modifications, such as odometer pictures.

Lack of Formal Reconciliations

Creating a formal reconciling process for all billing data should be a first step in certifying accurate and reliable billings. A comprehensive comparison of the vehicles equipment class codes to validate the accuracy of each vehicle should also be part of this verification process. When changes occur to a vehicle's classification from one month to the next, DFM should implement a process to capture these changes and be able to reconcile the changes, looking for errors between the old equipment class code and the new equipment class code. If the vehicle has an inaccurate equipment class code, the charges and billing rate will be incorrect. This further complicates management's decision-making ability, because the information may be skewed and inaccurate.

Guidance provided in *200 KAR 38:070* Section 2 (3)(c)(4) and (3)(e) requires an internal control plan include a review of transactions for appropriate accounting codes and accuracy, in this case the billings and classification require a reconciliation of agency accounts on a timely basis.

Lack of Adequate Accounts Receivable Monitoring

A review of accounts receivables and discussions with DFM and Office of Administrative Services (OAS) personnel identified that accounts receivables are not adequately monitored. Additionally, DFM does not have policies in place to address situations that may arise when a user-agency is in arrears on paying its assessments.

User-agencies that lease vehicles from the statewide motor pool include internal state agencies, which are agencies that utilize eMARS, and external agencies, such as universities that do not utilize eMARS. Amounts assessed for internal agencies are paid via an automatic process using internal transfers in eMARS. External agencies are sent bills and must submit payments for their charges. Therefore, monitoring internal accounts receivables may be more automated and less frequent due to the lower risk of non-collection. However, monitoring accounts receivables of external agencies requires a more routine process.

OBFM, which assists DFM with the preparation of user-agency bills, identified two external agencies that had past-due balances in FY 2020. University of Louisville (U of L) and Kentucky State University (KSU) had past due balances for rentals of motor pool vehicles. At the time the issue was identified, KSU owed $14,000 and U of L owed less than $500. OBFM discovered that the past due balances had not been communicated to the agencies, DFM's budget analyst, DFM Division Director, or OAS Executive Director. This breakdown in internal controls reflects a lack of procedures in place to monitor accounts receivable to detect and address collection problems, as well as a failure to adhere to 200 KAR 38:070 Section 2 (3), which requires that an internal control plan include the following [excerpted]:

The Office of Budget and Fiscal Management identified an external agency that was $14,000 in arrears. The balance had not been communicated to the agency.

(e) Reconciliation of agency accounts on a timely basis.
(g) Procedures for safeguarding agency assets;
(h) Assessment of the control environment, risks, impact of abuse, unintentional errors, and potential for fraud for the following:
1. Receipts;
10. Compliance and noncompliance with statues, administrative regulations, policies, and procedures;
11. Accounts Receivables

Prior to FY 2021, there was no one checking the overdue billings. Additionally, the amount external user-agencies were in arrears was not always communicated. In months when an external user-agency had new billable amounts, past due amounts were reflected on the billing memo. However, in months when there were no new assessments, the external user-agency was not sent a past-due notice. Beginning in FY 2021, according to OBFM, all outstanding balances are included in the billing each month, and the external user-agency is sent the Memo until the past due balance is paid in full.

Impact of the Lack of Policy Regarding Amounts in Arrears

In addition to the lack of monitoring, once an external user-agency was detected as being in arrears, DFM did not have a policy in place to address the situation, such as withholding vehicle rentals until a payment plan was arranged. Therefore, this permitted past-due amounts to continue to accumulate. For example, as noted above, KSU had a past due balance of $14,000 when this issue was detected. Collection attempts put into place at that time resulted in the balance decreasing to $2,000 by early 2021. However, KSU again started accruing significant monthly charges for increases in motor pool rentals without paying its assessments each month. As a result, KSU's $2,000 balance grew to $22,638.56 in total charges as of May 2021.

Past-due amounts continued to accumulate due to the lack of policies to address it.

The OBFM Executive Director addressed the situation with DFM's Division Director and the OAS Executive Director. On May 11, 2021, a memo was sent to KSU to "start the process to collecting a significant outstanding balance with the option that Fleet privileges could be terminated until past due is paid in full." As a result, KSU paid its balance in full by the end of May. This type of permanent policy should be developed by DFM to address future occurrences of past-due balances by external user-agencies. Communicating this type of policy in advance may deter user-agencies from failing to pay DFM assessments timely.

Since identifying these past due balances for the external user-agencies, the OBFM Executive Director has created a billing process and procedure to address DFM billings. Prior to the creation of these policies and procedures, this was a key missing piece for the billings of external user-agencies. A section of these procedures was created to address past due amounts. Although this process appears to incorporate appropriate internal controls to track the accounts receivables, DFM and OBFM may be able to incorporate more efficiency into the process by utilizing the eMARS receivable (RE) process.

It appears that part of the reason for these missing procedures is due to the misunderstanding by DFM regarding its role in the billing and accounts receivable process, which is further described in **Finding 2021-02-10.** Although DFM utilizes OBFM to assist in processing bills, DFM cannot abdicate its responsibility for ensuring proper internal controls are in place to monitor accounts receivable, or to establish policies to communicate to user-agencies regarding payments of amounts in arrears.

Recommendations

OPA recommends DFM:

- Ensure all supporting documentation for user-agency bills, including the detection and correction of discrepancies, is maintained. DFM should also develop a system to document all modifications made, whether they are made by DFM employees or user-agencies, and implement procedures requiring evidence to support the accuracy of modifications made.

- Complete a comprehensive assessment of each vehicle's current equipment class codes and billing rates for accuracy.

- Create written procedures for updating and reconciling the monthly FOS fixed asset reports to ensure changes in vehicle classifications and assessment rates have been captured. The updated reports should be used to create monthly bills to user-agencies.

- Establish procedures to reconcile the user-agency bills prepared by OBFM to the appropriate underlying supporting documentation (e.g., Monthly Assessment Reports, Excess Mileage Reports, and other documentation maintained to support any manual adjustments).

- Create a FOS report detailing excess mileage and billing by agency that can be monitored for large and excessive amounts that can be flagged for additional investigation. This type of report can be used to identify potential errors in mileage reporting, or even assist agencies in identifying more cost-effective means of travel, such as obtaining an additional vehicle.

- Create written policies and procedures for internal and external billings, with a specific emphasis on how to process the billings and who is responsible at each step. Consider whether the eMARS receivable (RE) process is appropriate and more efficient for DFM external billing purposes.

- Create a written policy and procedure to address past due user-agency balances, emphasizing timeframes for payment, possible penalties for noncompliance, and communications required.

Finding 2021-02-09: DFM Did Not Have Processes to Confirm GPS Mileage Data Used for Billing

As reported in **Finding 2021-02-08**, Global Positioning System (GPS) units are relied upon to provide the Division of Fleet Management (DFM) mileage data for the majority of DFM-owned and managed vehicles. In fact, GPS mileage was utilized for 12,792 out of 14,402, or 91%, of user-agency bills analyzed between FY 2018 and FY 2020. However, testing of these records and inquiry with DFM management identified weaknesses in the GPS data. Although DFM recognized the weaknesses, it did not have a routine process in place to consistently detect, confirm, or correct errors in reported mileage.

The reliability of the GPS data was impacted by a few different circumstances during the audit period, including:

- GPS units did not capture all mileage. DFM indicated that the GPS units periodically returned incomplete or faulty mileage readings. Generally, this is due to the vehicle being driven in remote locations of the state with spotty cellular coverage.
- Certain vehicles were not compatible with GPS units. DFM indicated that GPS did not always return a mileage reading for vehicles older than a 2008 model year. As of June 2020, there were 1,352 vehicles in the statewide fleet with a model year 2008 or older, with 1,082 of them in an active equipment status.
- DFM indicated there were instances in which vendors disconnected the GPS unit while making repairs and did not reconnect the device.
- Instances were noted in which GPS data did not agree to mileage entered in Fleet Operating System (FOS) manually by agencies. These instances are further described in **Finding 2021-02-08**.
- During part of the timeframe, the GPS device manufacturer had a legal issue with firmware/software deployment, which led to multiple mileage gathering and reporting issues. DFM found some of these issues quickly, but not in all cases. DFM indicated that upgrading to new devices resolved some of these data integrity issues, but not all.

DFM could not provide a report of all vehicles with known GPS issues. However, management indicated that of the issues above, most were left out of billing, and agencies were requested to submit mileage manually in FOS. Additionally, DFM stated that due to limitations with the FOS system, adjustments to previous billings are not reflected in subsequent billings, making reconciliation efforts challenging. Therefore, the full extent of the GPS data integrity issues is not known. Office of Policy and Audit (OPA) performed additional procedures to identify the magnitude of these concerns, as noted below.

OPA Odometer Analysis

To identify the magnitude of the potential errors, OPA conducted an analysis using the odometer readings provided by user-agencies obtained in the physical inventory process for FY 2018 and FY 2020. The total mileage calculated, per the odometer readings, was compared to the total mileage reported in the GPS mileage reports for the same period. As a result of this comparison, the auditor identified the discrepancies between the GPS reports and the change in odometer provided by the agencies. Although some of the discrepancies may be related to timing differences between the date the agency took the odometer reading and the date of the GPS reporting, this methodology provides us the best estimate to identify potential discrepancies based on the information available[6].

This analysis was performed for a sample of 1,376 vehicles in use during each inventory period, for which odometer information was readily available. The results are reported in **Table 9.1**.

Table 9.1
Difference between Odometer Readings and GPS Mileage Report
FY 2018 to FY 2020

Deviation Range	Number of Vehicles	Percentage to Total
100 Miles or Less	261	19%
> 100 Miles but < 500 Miles	277	20%
> 500 Miles but < 1,000 Miles	255	19%
> 1,000 Miles	583	42%
Total Vehicles Tested	**1,376**	**100%**

Source: DFM Inventory Inquiries and GPS Mileage Reports

It is important for DFM to understand the reasons for the discrepancies and implement a process to reconcile the data to ensure it has valid utilization data, and to ensure user-agency bills are accurate. Agency leased vehicles are billed for any mileage driven over the monthly threshold of 1,225, and DFM uses the GPS Mileage Report to determine the excess mileage to bill. To demonstrate the effect on billing, consider as an example one agency leased a 3/4 ton 4wd truck. For this vehicle, the discrepancy between the odometer reading reported by the user-agency (65,236 miles driven), and the GPS Mileage Report (42,920 miles driven) was 22,316 miles. The user-agency was billed based on the GPS Mileage Report. Therefore, if the odometer reading is accurate, the user-agency may have been under-billed as much as 22,316 excess miles for those two fiscal years.[7]

Discrepancies of more than 1,000 miles were found between GPS readings and agency-reported odometer readings in 42% of the vehicles tested.

DFM Data Collection

DFM has a process for obtaining information from user-agencies that could be used to substantiate the GPS data, but the process has not been sufficient to meet this objective. DFM indicated that at the beginning of each fiscal year, each user-agency is asked to verify their vehicle inventory list and report back the vehicle's odometer reading, as well as other information. DFM also asks agencies to leave comments to ensure proper billing locations for the upcoming fiscal year. While

[6] Additional analysis was performed to assess the reasonableness of the calculations in Table 9.1, given the potential timing differences. In this analysis, discrepancies for vehicles in the "> 1,000 Miles" category were compared against the average miles driven for that vehicle. More than 84% of the discrepancies could not be reasonably explained as a timing difference.

[7] As reported in Finding 2021-02-08, documentation was not readily available to identify if the billing discrepancy was subsequently detected and corrected.

this provides DFM with good information to reconcile GPS data, no such reconciliations are performed.

Additionally, DFM does not conduct this inventory process consistently, as they did not complete the FY 2019 inventory. Also, there is a lack of participation from user-agencies without effective follow-up from DFM to ensure the information gathered is complete. As an example, an evaluation of DFM's inventory responses for FY 2018 and FY 2020 identified 44 instances in which the agency either did not provide the vehicle odometer reading at all or the odometer reading provided in FY 2020 was actually less than the odometer reading provided in FY 2018. This should have triggered a follow-up; however, as reported in **Finding 21-02-01**, DFM management did not believe it had the authority to hold user-agencies accountable for failing to accurately report this information. Therefore, DFM's process was not effective at identifying or correcting GPS errors.

Recommendation

OPA recommends that DFM reconcile reported odometer mileage from agencies to GPS Mileage Reports. This reconciliation will assist in detection of GPS issues and assist the division in ensuring accurate billing. Discrepancies between the reports should be investigated, documented, and maintained in accordance with the record retention period. Additionally, bills should be corrected accordingly, and user-agencies should be provided detail of any correction.

Finding 2021-02-10: DFM Did Not Have a Clear Understanding of Its Responsibilities for Tasks Assigned to the Office of Budget and Fiscal Management

The Division of Fleet Management (DFM) staff expressed significant reliance on the Office of Budget and Fiscal Management (OBFM) for accomplishing certain business functions such as those related to budget, monthly billing, monitoring expenditures, planning and projecting future purchases, and monitoring accounts. However, there was a disconnect between DFM's responsibility for continuing to manage and oversee those tasks.

Adding to the confusion, both DFM and OBFM are organizationally within the Finance and Administration Cabinet (FAC) Office of Administrative Services. Over time, several functions that are critical to DFM's operations were assigned to OBFM. Although organizational units within FAC should not be limited in providing assistance and organizing tasks in a way that best serves the Cabinet, DFM did not show awareness that it had the responsibility for decision-making and monitoring the results of the tasks performed on its behalf. For example, although OBFM may assist in monitoring budgets of the various units within FAC, it does not have sufficient information to project future needs other than a historical analysis of past performance because it is not involved in the daily operations. If priorities, policies, statutes, and regulations change that impact DFM operations, OBFM may not be aware of how the changes impact future needs of the division.

Monthly Billing

DFM's revenues are derived from assessments to user-agencies. The various assessments billed include monthly motor pool rentals, monthly assessments for Agency Leased and Agency Purchased Vehicles, and monthly excess mileage.

At the conclusion of each month, the monthly billing data is uploaded to a shared filed for OBFM to process in eMARS. DFM staff stated they did not know any more about the process beyond this data upload. It appears once the file was uploaded, DFM did not reconcile or check to ensure the billings were processed correctly other than performing a manual comparison of Monthly Assessments to look for significant anomalies or discrepancies. Instead, the division relied on OBFM to complete the process.

Although OBFM has been tasked to process the monthly user-agency bills, DFM has the overall responsibility to ensure the billings are accurate and free of errors, as it has direct access to the source data in FOS and is responsible for managing the statewide fleet. Failing to understand these separations of responsibilities and their importance leaves DFM at a greater risk of issuing erroneous bills. Additionally, DFM should have responsibility of monitoring bills submitted to user-agencies so it can address questions from user-agencies about their bill or related vehicle utilization.

Past Due Accounts Receivable

Finding 2021-02-08 describes instances of past due accounts receivable related to external user-agencies, such as universities. DFM management stated that Kentucky State University (KSU) was renting vehicles from the statewide motor pool but had not made payments on its previous rental charges. Although originally detected by OBFM in June 2020, KSU's balance in arrears increased again in 2021, resulting in a total balance of nearly $23,000 by May 2021. OBFM Executive Director took the initiative to meet with DFM Director and OAS Executive Director to implement a corrective action related to this instance. However, DFM must be involved in establishing long-term policies and procedures to prevent, detect, and correct these instances in the future.

Vehicle Registration Receivables

DFM does not track reimbursements for newly registered vehicles. When newly purchased vehicles are delivered to DFM for new vehicle processing, such as adding decals and obtaining vehicle registration, a staff person logs the registration charge of $15 and identifies the purchasing agency. This charge is to cover the title and registration at the Franklin Country Clerk's Office. However, when DFM staff send the registration log to OBFM for the billing, no one at DFM follows up to ensure the accuracy of the registration bill or the subsequent reimbursement is paid. Although the amounts are small, DFM has a responsibility to ensure the reimbursements are billed correctly and received.

Budgeting for Vehicle Purchases

DFM does not have a process in place to forecast new vehicle purchases, specifically projecting the number of new vehicles expected to buy annually or estimating the funding needed to complete the purchases. Inquiry with DFM management and staff indicated it does not plan vehicle purchasing needs. Instead, it relies on OBFM to instruct them on the amount of money available to purchase new vehicles. Staff then takes the amount provided to calculate the number of vehicles that can be reasonably purchased.

Relying on OBFM alone causes DFM to miss the opportunity to set its priorities and request rate changes to ensure it is working toward the established regulation goals regarding vehicle replacements (200 KAR 40:020 Section 4), as well as statutory requirements regarding the purchases of fuel-efficient vehicles (KRS 45A.625). This process also decreases its ability to communicate effectively the reasons why it does not meet those regulatory goals to Cabinet leadership, legislators, or others. Although OBFM is directly involved in analyzing available funds, it is not involved in the daily DFM operations enough to monitor whether vehicle replacement goals are met. As identified in **Finding 2021-02-03**, DFM's budget performance reflected significant budget carryforwards in each year analyzed and was ultimately subject to budgetary sweeps. Although the audit did not uncover evidence as to why DFM did not use the carryforwards to achieve vehicle replacement goals or decrease rates to user-agencies, it appears to be the result of the division's reactive, rather than proactive, budget process.

Procurement Planning

A key component of understanding procurement is the requirements related to the procurement of goods and services under the agency's small purchase authority, when vendor quotations are required and when the agency must contract with a vendor. **Finding 2021-02-07** describes DFM's failure to properly plan its needs to determine when to obtain contracts rather than purchasing goods and services under the agency's small purchase authority. DFM did not have a good understanding of its responsibility related to these requirements.

Although OBFM assists FAC business units in procurement of goods and services, it would not have sufficient information for assessing future needs to plan in advance to contract vendors. The activity performed must be in conjunction with DFM, who has the ultimate responsibility to obtain the services and monitor the vendors. FAP 111-55-00(2)(b) states:

> If an agency's projected needs for like items will cost more than what it can purchase under its small purchase limit, the agency shall submit a Requisition (RQS) to OPS for commodities and services. Quotes may be obtained by mail, electronic mail, facsimile or by posting the request to the state's eProcurement website.

Recommendations

As part of its internal operating plan recommended in **Finding 2021-02-01**, OPA recommends that DFM clarify its roles and responsibilities related to fiscal processes, including distinction of its responsibilities related to tasks performed on its behalf by OBFM staff. In clarifying its roles and responsibilities, DFM may determine that additional duties or position(s) may be needed to ensure the division has appropriate staffing to meet its needs, with consideration given to employees' experience and training needs to meet these objectives.

OPA further recommends that DFM create a listing for tracking reimbursements for all newly registered vehicles, specifically the fifteen-dollar ($15) Franklin County Clerk's fee to ensure DFM obtains payment from agencies.

Finding 2021-02-11: DFM Did Not Comply with Certain Statutory and Regulatory Requirements, and Did Not Have Adequate Internal Controls over Monitoring Agency Compliance with Fleet Requirements

Noncompliances were identified in seven statutory and regulatory requirements that fall within DFM's responsibility. Compliance testing covered certain elements of KRS 44.045, KRS 45A.625, 200 KAR 40:010, and 200 KAR 40:020. A matrix of the statutory and regulatory areas of noncompliance identified is presented in **Appendix C**, and further explanation is provided below.

Additionally, as stated in **Finding 2021-02-01**, Department of Fleet Management (DFM) has the responsibility to govern the use of state-owned vehicles on behalf of the Cabinet. In addition to establishing rules and regulations, this responsibility also entails monitoring user activity in a way that promotes compliance.

Finally, DFM did not establish adequate protocols related to COVID-19 guidance. Although DFM did have procedures established for cleaning motor pool vehicles upon their return, it did not communicate protocols to other state agencies for other classifications of state-owned vehicles. Additionally, it did not have protocol changes for its employees that were required to work onsite during the pandemic.

Noncompliance with Statutes and Regulations

For the purposes of this report, noncompliances presented are those that relate directly to requirements that fall, or should fall, within DFM's direct control. A matrix of noncompliance with the specific cited references is presented in **Appendix C**, with a summary of the information presented below.

Fuel Efficient Vehicles
DFM is required by KRS 45A.625 to develop a strategy to replace certain fleet vehicles with alternative fuel vehicles, as well as to reduce state government's dependence on petroleum-based fuels. Furthermore, DFM is required to provide a report to Legislative Research Commission (LRC) by December 1st each year regarding its strategy, including a life-cycle cost comparison and timetable for replacement of the vehicles as required. DFM complied with the requirement to provide a report for the first time in November 2020. However, the report did not present a life-cycle cost comparison. Additionally, DFM does not have a documented strategy for reducing state government's dependence on petroleum-based fuels.

As of its November 2020 report, DFM complied with the required percentage of vehicles that are fuel efficient. The vehicles that met this requirement included 2,153 multi/flex-fuel vehicles and 10 hybrid vehicles. Multi/flex-fuel vehicles can burn regular or E85 gasoline that reduces the amount of petroleum. The United States Environmental Protection Agency (EPA) states on its website, "Expanding use of E85 as a vehicle fuel would increase the use of renewable fuel and reduce dependence on imported oil. E85 can also provide important reductions in greenhouse gas

(GHG) emissions as compared to petroleum-derived gasoline or lower volume ethanol blends."[8] Even though the Multi/Flex-Fuel vehicles and hybrid vehicles reduce the amount of petroleum used, DFM has not presented strategies for increased use of alternative fuels, however, as required in the statute.

Permanently Assigned Vehicles (PAV)
Biennial budget bills approved by the General Assembly since 2016 have included limitations on employees that may be assigned a PAV. Although not codified in statute, these bills carry the force of law. DFM has not updated Agency and Driver Guides to reflect limitations on employees that may be assigned a PAV.

Additionally, the budget bills also require reporting of PAV details to LRC by August 1st each year. DFM complied with this requirement for the first time in 2020 but did not provide the report to LRC in prior years.

Agency-Specific Fleets
Written justification from agencies approved for agency-specific fleets have not been maintained, and DFM has not obtained required annual cost effectiveness reports from these agencies, as required by 200 KAR 40:020 Section 2(3).

DFM currently has six agency-specific fleets identified, which by statute are fleets approved regulation are vehicles owned, operated, and maintained by a state agency other than Finance and Administration Cabinet (FAC). For the purposes of this finding, the discussion only involves five of the agency-specific fleets, as listed below. The sixth agency-specific fleet is related the Kentucky State Police, which is exempted from the requirements referenced. The five agencies with agency-specific fleets subject to 200 KAR 40:020 Section 2(3) are:

- Administrative Office of the Courts
- Kentucky Department of Agriculture
- Office of the Attorney General
- Legislative Research Commission
- Public Protection Cabinet

It is important to understand agencies that have been approved for an agency-specific fleet may also utilize vehicles owned or managed by DFM under a separate vehicle classification. For example, based on information from DFM management in May 2021, the Public Protection Cabinet has 153 vehicles in its agency-specific fleet, 57 Agency Purchased Vehicles, and 53 Agency Leased Vehicles.

[8] Renewable Fuel Standard Program on "*E85 Fuel*" from United States Environment Protection Agency at https:epa.gov/renewable-fuel-standard-program/e85-fuel

<u>Maintenance History and Costs for Exempt Vehicles</u>
200 KAR 40:020 Section 8(3) requires DFM to obtain an annual report from agencies related to the maintenance history and costs for exempt vehicles. Exempt vehicles are defined in the regulation as those vehicles that are not part of the statewide motor pool. DFM has not requested these reports and indicated that this had not been performed in the past few years.

<u>Authorization of Vehicles Used for Investigatory Purposes</u>
Compliance with KRS 44.045(4) was also considered as part of this review. This statute permits the Department of Revenue, Justice and Public Safety Cabinet, and the Department of Law (i.e., Office of the Attorney General) to register a vehicle for investigatory purposes with a regular license plate instead of a state government plate, upon approval by the FAC secretary. Although it was noted that DFM does not retain documentation related to these vehicles, the issue is more complex. These agencies, as well as the Kentucky Transportation Cabinet, are also permitted to register vehicles and obtain regular license plates under KRS 186.065. This statute does not have the same requirement to obtain the approval of the FAC secretary or to otherwise report these vehicles to FAC. Therefore, further legislative clarification is needed in statute in order to comply with the intent of KRS 44.045(4) and eliminate the conflict with KRS 186.065. Because of these issues, this statute was not identified as a noncompliant area for DFM in the matrix in **Appendix C**.

Internal Controls Over User-Agency Compliance

Governance of a program includes a broad set of responsibilities, as described in **Finding 2021-02-01**. Historical DFM procedures did include monitoring user-agencies for compliance with fleet-related regulatory requirements. In requesting information about monitoring procedures for user-agencies compliance, DFM management frequently stated that agencies are responsible for their own compliance and "Finance only has authority over Finance, and administratively attached agencies." It is accurate that certain compliance requirements are the responsibility of the user-agencies. However, without adequate monitoring, DFM will not meet the objectives of ensuring the program is functioning as intended. Also, the lack of sufficient monitoring may cause DFM to miss opportunities to improve communication and guidance to user-agencies and drivers, which also has the effect of improving compliance, since it enhances agencies' understanding of requirements.

DFM should ensure it adheres to guidance in 200 KAR 38:070 Section 2. In part, this regulation requires agencies to have an internal control plan that includes:

(g) Procedures for safeguarding agency assets.
(h) Assessment of the control environment, risks, impact of abuse, unintentional errors, and potential fraud for the following: (5) Fixed assets; (9) Grant and program administration; (10) Compliance and noncompliance with statutes, administrative regulations, policies, and procedures.
(k) System of monitoring compliance with internal control and pre-audit procedures.

KRS 44.045(6) authorizes the FAC secretary to adopt administrative regulations to govern the use of state-owned vehicles. In its organizational role within the Cabinet, DFM should be responsible for initiating changes in the regulations. Although regulations have been created, including Agency and Driver Guides for the use of the Commonwealth's vehicles incorporated into 200 KAR 40:010 by reference, the regulations have not been kept up to date. Therefore, over time the regulations have become incomplete and, in some cases, inaccurate. Additional attention given to monitoring legislation impacting the fleet program, monitoring agency usage and compliance, and updating guidance to incorporate information for new information or for clarity is necessary. Examples of the weaknesses noted are discussed below.

<u>Agency and Driver Guides Are Not Up-to-Date</u>
Changes contained in HB 352 (2020 RS) and prior biennial budget bills since 2016 establishing limitations regarding the use of permanently assigned vehicles have not been updated in the Agency Guide for Commonwealth Vehicles and the Drivers Guide for Commonwealth Vehicles. Refer to the information presented in the Noncompliance section of this finding for additional information on this matter.

The Guides were last revised in May 2011. Although updates to guides incorporated by reference into regulation is an arduous process, there should be a routine process to review the regulations and update them as necessary with revised guidance and to correct any errors. Certain errors may occur inadvertently over time, such as those related to changes in websites and web pages. In these instances, DFM may communicate corrections to user-agencies and drivers until such time the regulation can be amended.

<u>Preventive Maintenance and Service is Not Consistently Carried Out or Monitored</u>
Finding 2021-02-06 identified that DFM does not have a preventive maintenance program, and all fleet vehicles are not subject to a periodic routine inspection to determine the need for specific maintenance services. The Agency Guide indicates that DFM vehicles are scheduled to be serviced and the oil changed every 5,000 miles or six months, whichever comes first. Additionally, 200 KAR 40:020 Section 8 references the responsibility of agencies to maintain permanently assigned vehicles in accordance with the manufacturer's instructions and the responsibility of the Cabinet for maintenance and repair of nonexempt vehicles. This regulation also requires that the maintenance history and costs be maintained at the responsible agency and provided to the Cabinet on an annual basis. As reported in **Finding 2021-02-06**, this information has not been provided to or obtained by DFM.

<u>The Agency and Driver Guides Do Not Establish Clear Consequences for Noncompliance</u>
The Agency and Drivers Guides establish regulatory guidance intended to promote vehicle and driver due care, safety, security, control and maintenance. Often, DFM is made aware of instances of noncompliance, such as prohibited vehicle use, as defined on page 6 of the Drivers Guide (i.e., reckless driving, speeding, etc.) Also, DFM management indicated there have been numerous situations involved repeat offenders and expressed frustration with what they perceived to be user-agencies failure to follow-through with actions to prevent repeated driver noncompliance.

During inquiries about these situations, DFM management indicated they do attempt to follow-up with agencies regarding accident reports. However, this is not a consistent and well-documented process. Additionally, DFM management indicated they generally defer to agencies to investigate and address issues. User-agencies do have the primary responsibility to investigate and address employee behavior. However, DFM has not utilized its authority to establish policies to address these noncompliances at the fleet level, such as prohibiting drivers with repeat offenses from driving state-owned vehicles. The Agency Guide does contain a General Provision indicating an agency may be held responsible for any damage or repair costs to fleet vehicles resulting from misuse or neglect by drivers or passengers, but there is not good tracking or documentation to show this in actual practice. The Agency Guide also establishes provisions for the revocation of permanently assigned vehicles that do not adhere to specific rules, regulations, and usage. However, there are no similar provisions for other vehicle types. The consequences of noncompliance should be clearly identified in both the Agency and Driver Guides, and appropriate processes should be in place to follow-up on these matters and take appropriate action.

<u>The Agency Guide Contains Provisions for Under-Utilized Vehicles That DFM Does Not Utilize</u>
The Agency Guide contains a provision requiring user-agencies of agency-assigned vehicles to notify DFM of any changes with vehicle use, such as in location, driver, or purpose. This is a requirement of user-agencies, but there is no mechanism by DFM to monitor usage or prompt this reporting, such as an annual update request.

Additionally, the Agency Guide contains a provision for under-utilized vehicles indicating that any time an agency-assigned vehicle does not meet established requirements for use, the agency must provide justification for continued retention of the vehicle. Additionally, the provision states that the assignment may be continued, modified, or rescinded. **Finding 2021-02-04** presents information regarding concerns related to the lack of monitoring of under-utilized vehicles.

COVID-19 Policies

The internal audit evaluated DFM's policies and practices related to COVID-19 protocols by comparing them to guidance from the Kentucky Department of Health and guidance from the Centers for Disease Control (CDC). In its organizational role within the Cabinet, DFM should be responsible for initiating changes in the regulations. DFM did not have adequate procedures to mitigate the spread of coronavirus for state-owned vehicles or the employees that physically worked in the offices and garage(s). DFM provided a policy that included vehicle-cleaning procedures for the vehicles returned to the motor pool, as well as physical pictures of the COVID related signs taped inside out to the glass doors at each main entrance. However, there was no information reflecting the policy, guidance, or other communication provided to state agencies regarding expected protocols for other state-owned vehicles, including cleaning procedures, frequency, or guidance regarding drivers and passengers.

Additionally, DFM did not appear to have protocols for its employees that physically worked in the offices or garage(s). These employees were subject to all statewide policies that govern other state employees. However, due to the operations performed, many DFM employees could not work at home. This necessitated the creation of other reasonable protocols to protect employees. Although DFM employees may have taken their own actions to protect themselves, there was no evidence indicating DFM formally implemented additional guidance. DFM did answer agencies' questions on how to disinfect fleet vehicles but did not share a list of CDC approved disinfectants against viruses (including COVID-19 virus) from the Environmental Protection Agency (EPA) received from Cabinet for Health and Family Services (CHFS).

Recommendations

OPA recommends that DFM consider the following recommendations as part of the internal operating plan recommended in **Finding 2021-02-01**:

- Prioritize the development of policies and procedures to comply with all statutes, regulations, contracts, and other legal agreements. Specifically, DFM should:

  a. Comply with KRS 45A.625 by developing a formal strategy for the replacement of 50% of vehicles and light-duty trucks and the increased use of alternatives fuels. DFM may consider both short- and long-term objectives in its strategy, and update it as needed to meet current economic and budgetary conditions. DFM should also establish a plan to perform life-cycle cost comparisons in the future. This may entail first tackling FOS data integrity concerns to ensure that such comparisons are based on sound data.

  b. Establish procedures to obtain required reports from agencies with exempt vehicles, including cost effectiveness reports, and records of maintenance history and costs.

- Develop recommendations for legislative consideration to clarify the discrepancies between KRS 44.054(4) and KRS 186.065 related to regular license plate registrations for investigatory purposes.

- Develop an internal control plan as required by 200 KAR 38:070, specifically addressing the areas of greatest relevance to the functions of DFM. These functions include the development of detailed procedures to be followed in the performance of job duties and functions; establishing procedures to safeguard state-owned vehicles such as maintaining vehicles in a way that enhances their condition over their useful lives and improves user confidence; and monitoring user-agency and driver compliance with statutes, regulations, policies and procedures.

- Update the fleet related administrative regulations contained in 200 KAR 40:010 and 200 KAR 40:020, including the Agency and Driver Guides incorporated into the regulations by reference. In doing so, DFM should ensure the regulations incorporate all updated legislative requirements. Additionally, as part of this regulation update, DFM should evaluate the vehicle replacement policy in 200 KAR 40:020 Section 4(3) and update it as needed to find an appropriate balance to meet the needs of the Commonwealth in a fiscally responsible and feasible way.

- Develop and enact policies and procedures to monitor and address repeat violations of user-agency or driver noncompliance. DFM should ensure that appropriate documentation is maintained to identify the instances of noncompliance reported, and the disposition of the matter including any penalties or use restrictions DFM applied.

- Follow recommendations in previous findings related to the establishment of vehicle usage monitoring. Additionally, DFM should establish procedures to adhere to the current regulatory authority to address the under-utilization of agency-assigned vehicles. Additional policies or amendments to the current policy should be considered if DFM believes the current policy does not provide it sufficient authority to act in a reasonable and fair manner.

- Consider methods to improve communication with and training of user-agencies and drivers. Such consideration may include the development of brief training modules in MyPurpose. In the case of drivers, a 15–30-minute mandatory training to introduce them to the major concepts of the drivers guide both ensures access to relevant information and provides documentation in the training module regarding the driver's attendance.

- Establish responsibility to implement and communicate changes in agency policy or procedures resulting from the guidance provided by FAC Division of Human Resources, Kentucky Personnel Cabinet, or the FAC Secretary. This should include addressing matters of public health and finding an appropriate avenue to communicate requirements to employees that may not frequently access state email.

Finding 2021-02-12: DFM May Benefit from Developing a Customer Service Plan

During the internal audit, the Division of Fleet Management (DFM) management and staff reflected a genuine dedication to their goal of responding to user-agency motor vehicle needs. However, there were also frustrations concerning what DFM believed to be user-agency failures to comply with requirements, and to properly communicate and address vehicle-related incidents and problems. Additionally, DFM management distanced itself from user-agency requirements, as described in **Finding 2021-02-11**. Although this may be a legal reality for some requirements, it is a counterproductive reaction that does not promote avenues to achieve the primary objectives of having an efficient and effective fleet program.

Also, although not tested during the audit, Office of Policy and Audit (OPA) heard anecdotal information from state employees indicating there may be a lack of confidence in agency leased vehicles, motor pool vehicles, and DFM procedures. DFM employees may not believe user-agency criticisms are fair, but it is important for DFM to be aware of the concerns. Otherwise, the complaints draw attention from DFM management's efforts to improve vehicle utilization, increase agency compliance, and hurts the division's reputation. All of these matters present indicators that DFM may benefit from developing a customer service plan.

Customer Service for Government Agencies

The concept of customer service is often seen as a private-sector concern. However, in recent years, government agencies have realized the importance of improving interactions with their customers. At the federal level, federal agencies were mandated to develop and publish a customer service plan[9]. This has led to customer services resources geared directly for government agencies. One such resource noted "There's a lot to be gained from creating a better customer service experience. For you, it means less stress, more productivity and a better work environment. Plus, no agency wants bad public relations for a botched service or subpar customer service."[10]

In recent years, government agencies have started realizing the importance of improving interactions with customers/users.

Since DFM works exclusively with other government employees, an increased customer service focus could lead to better communications with user-agencies and drivers, which in turn will make it more effective in meeting its objectives and possibly increase user-agency and driver confidence. This could lead to increased usage, which in turn, alleviates some of the other areas noted in which DFM could improve its operations.

[9] Executive Order 13571 – Streamlining Service Delivery and Improving Customer Service, April 27, 2011
[10] Customer Service 101: Breaking Down What You need to Know, GovLoop, https://www.oracle.com/us/industries/public-sector/gov-loop-cs-pocket-guide-3839560.pdf

Elements of a Customer Service Plan

A few of the key elements of a customer service plan include[11]:

- Create a customer service vision. This involves, in part, involving DFM employees so they understand the vision and organizational goals, including their responsibility to achieve that vision.

- Assess customer needs. It is important for DFM, more than many agencies, to understand what its customers' needs in order to meet its objectives. DFM indicated that it does obtain user feedback through two different avenues – customer comment cards and the "How's My Driving Program." However, DFM has not compiled or evaluated the comments provided and has not utilized these as part of an effort to evaluate its operations. Additionally, certain tools, such as user satisfaction surveys sent to user-agencies, agency heads, and drivers may provide information that can quickly be analyzed since many survey tools provide dashboards and summaries of the data.

  Additionally, DFM also uses designated agency contacts assigned to track the vehicles, report monthly mileage, etc. However, it is not clear whether there is periodic communication with agency heads. The designation of agency contacts is a good start and creates a good avenue for routine communication. DFM may benefit from expanding the routine communication to these individuals and their agency heads.

- Train on service skills. Example topics may include how to respond to customer complaints, and DFM's standard of service expectations.

- Hold people accountable and recognize good service. This may include something as simple as sharing survey results with employees to show them when user-agencies and drivers identify both poor customer service and excellent customer service actions.

Recommendations

OPA recommends DFM:

- Develop and implement a customer service plan or strategy. This should begin with the tone from the top and establish goals with division employees to improve user-agency and driver interaction, as well as engagement.

- Assess baseline user satisfaction through a user-agency, agency-head and driver satisfaction survey. Establish a date in the future to reassess the satisfaction of these groups to use as a tool to assess the effectiveness of DFM's changes and modify its plan, if needed.

[11] There is a significant amount of resources available on customer service plans. The elements presented are based on "*7 Steps to Creating a Customer Service Strategy*" from The Thriving Small Business at https://thethrivingsmallbusiness.com.

- Establish additional ways to engage and communicate with user-agencies and drivers. These may include regular communications to increase user's understanding of fleet responsibilities, provide reminders, or even statistics. For example, communications through periodic newsletters, or a segment in the Personnel Cabinet's newsletter may be beneficial.

- Incorporate opportunities to promote DFM services in the brief training programs in MyPurpose recommended previously. These programs may not only serve as a way to improve user compliance but may also be useful in assisting DFM to meet its customer service objectives. This also will provide DFM a database of contacts that are directly involved in some way with state-owned vehicles.

APPENDICES

APPENDIX A – Under-Utilized Vehicles by Cabinet FY 2018 – FY 2020[12]

Source: Fleet Operating System (FOS) (all tables)

		FY 2018 Assessment of Under-Utilized Vehicles					
Cabinet	**Total # Vehicles**	**Driven < 7,350 Miles**	**% Driven < 7,350 Miles**	**Driven < 5,000 Miles**	**% Driven < 5,000 Miles**	**Driven < 3,675 Miles**	**% Driven < 3,675 Miles**
Cabinet for Health and Family Services	303	91	30%	63	21%	43	14%
Kentucky Energy and Environment Cabinet	34	6	18%	0	0%	0	0%
Cabinet for Economic Development	15	3	20%	1	7%	1	7%
Kentucky Education Cabinet	89	34	38%	19	21%	14	16%
Finance and Administration Cabinet	606	200	33%	127	21%	88	15%
General Government	174	68	39%	44	25%	33	19%
Kentucky Justice and Public Safetey Cabinet	516	137	27%	96	19%	50	10%
Kentucky Transportation Cabinet	1,794	424	24%	202	11%	99	6%
Public Protection Cabinet	91	10	11%	5	5%	3	3%
Tourism Arts and Heritage Cabinet	400	112	28%	70	18%	42	11%
Universities	11	9	82%	6	55%	4	36%
Total	**4,033**	**1,094**	**27%**	**633**	**16%**	**377**	**9%**

		FY 2019 Assessment of Under-Utilized Vehicles					
Cabinet	**Total # Vehicles**	**Driven < 7,350 Miles**	**% Driven < 7,350 Miles**	**Driven < 5,000 Miles**	**% Driven < 5,000 Miles**	**Driven < 3,675 Miles**	**% Driven < 3,675 Miles**
Cabinet for Health and Family Services	309	100	32%	63	20%	35	11%
Kentucky Energy and Environment Cabinet	17	1	6%	0	0%	0	0%
Cabinet for Economic Development	14	2	14%	2	14%	1	7%
Kentucky Education Cabinet	93	30	32%	20	22%	18	19%
Finance and Administration Cabinet	649	243	37%	172	27%	139	21%
General Government	187	64	34%	39	21%	32	17%
Kentucky Justice and Public Safetey Cabinet	536	125	23%	69	13%	43	8%
Kentucky Transportation Cabinet	1,783	394	22%	184	10%	106	6%
Public Protection Cabinet	71	15	21%	13	18%	11	15%
Tourism Arts and Heritage Cabinet	399	237	59%	169	42%	114	29%
Universities	11	6	55%	4	36%	3	27%
Total	**4,069**	**1,217**	**30%**	**735**	**18%**	**502**	**12%**

[12] This appendix is presented for summary level informational purposes only. Cabinet-level identification is presented based on the location information reported in FOS. Additional detail at the office, department, or division level was not obtained by the Office of Policy and Audit.

APPENDIX A – Under-Utilized Vehicles by Cabinet FY 2018 – FY 2020 Continued

		FY 2020 Assessment of Under-Utilized Vehicles					
Cabinet	**Total # Vehicles**	**Driven < 7,350 Miles**	**%Driven < 7,350 Miles**	**Driven < 5,000 Miles**	**%Driven < 5,000 Miles**	**Driven < 3,675 Miles**	**%Driven < 3,675 Miles**
Cabinet for Health and Family Services	312	130	42%	87	28%	56	18%
Cabinet for Economic Development	14	5	36%	2	14%	1	7%
Kentucky Education Cabinet	100	46	46%	32	32%	22	22%
Finance and Administration Cabinet	854	434	51%	299	35%	219	26%
General Government	180	81	45%	61	34%	48	27%
Kentucky Justice and Public Safetey Cabinet	536	205	38%	122	23%	85	16%
Kentucky Transportation Cabinet	1,851	510	28%	267	14%	139	8%
Public Employees Retirement System	1	1	100%	0	0%	0	0%
Public Protection Cabinet	53	11	21%	4	8%	4	8%
Tourism Arts and Heritage Cabinet	399	257	64%	191	48%	134	34%
Universities	12	10	83%	8	67%	4	33%
Total	**4,312**	**1,690**	**39%**	**1,073**	**25%**	**712**	**17%**

APPENDIX B – Vendor Payments Totaling Over $20,000[13]

VENDORS	2019	2020	TOTAL
AMERICAN TIRE INC	$ 22,856.21	$	$ 22,856.21
AUTOZONE	38,164.86	28,255.32	66,420.18
AVIZION GLASS LLC	22,350.30		22,350.30
B.M. Motor Truck Repair		54,183.25	54,183.25
BAILEYS TIRE INC	20,563.10		20,563.10
BINGHAM TIRE OF SOMERSET	34,345.64	44,437.10	78,782.74
BINGHAM TIRE AND OIL INC		20,167.96	20,167.96
BOB ALLEN-CDJ		23,017.49	23,017.49
BOBBY WOOLRIDGE	61,201.00		61,201.00
BREATHITT COUNTY TIRE CENTER	27,696.23		27,696.23
CAJUN INDUSTRIES INC		23,588.58	23,588.58
CECILS SERVICE CTR INC	80,504.92	76,469.05	156,973.97
CROWES MASTER TECH LLC		27,813.66	27,813.66
DANELIN DISTRIBUTING CO INC	38,993.25		38,993.25
DISCOUNT TIRE AND AUTO	25,254.29		25,254.29
DOUGS SERVICES INC		21,325.90	21,325.90
FRANK SHOOP CHEV BUICK	21,250.92		21,250.92
GLASGOW TIRE & AUTO CTR.	23,199.22		23,199.22
GLENS AUTOMOTIVE AND TOWING	56,435.46	20,286.94	76,722.40
GRAYSON AUTOMOTIVE		30,133.37	30,133.37
GREER & STAPLES INC	51,276.36	56,369.22	107,645.58
HARLEYS FAMILY TIRE	29,239.92	26,929.94	56,169.86
HINDMAN TIRE & AUTO PARTS		23,768.66	23,768.66
HOT RODS SERVICE CENTER	25,011.58	27,391.88	52,403.46
JASPER ENGINE EXCHANGE, INC.	125,115.50	57,135.00	182,250.50
JEFF COLEMAN	20,634.34		20,634.34
JOHNSONS BODY SHOP	22,221.15	41,299.72	63,520.87
LIMITLESS AUTO & DIESEL		29,457.43	29,457.43
LYMAN LYONS JR.	21,140.99	21,920.00	43,060.99
MAX PARRISH AUTOMOTIVE LLC		42,394.53	42,394.53
MCGOWN TIRE & SERVICE	53,708.40	23,218.70	76,927.10
MIKE GAMBREL	21,713.35		21,713.35
MORGAN TIRE CENTER INC	33,120.55	31,173.58	64,294.13
PERFORMANCE TIRE CO	49,379.42	48,155.21	97,534.63
PERRY CO TIRE INC	22,621.89		22,621.89
PURCELL TIRE AND RUBBER CO	74,842.02	67,285.27	142,127.29
RABEN TIRE CO INC	64,440.93	63,249.50	127,690.43
ROBERTS HEAVY DUTY TOWING INC		-	-
RONALD EDWARD DUDLEY CURD	54,631.10	37,893.61	92,524.71
ROSS TIRES INC		21,918.43	21,918.43
SHELBY COUNTY AUTOMOTIVE INC	45,738.54	110,212.28	155,950.82
SQUARE	28,647.93	23,163.55	51,811.48
TIRE WORLD	22,668.59	24,540.68	47,209.27
VALVOLINE, LLC	22,330.80	24,408.53	46,739.33
WALKERTOWN SERVICE CENTER LLC	31,115.36	29,958.73	61,074.09
WOOLDRIDGE & SONS AUTO	149,327.84	116,834.64	266,162.48
TOTAL	**$ 1,441,741.96**	**$ 1,318,357.71**	**$ 2,760,099.67**

Source: eMARS

[13] Vendors listed did not have a contract in place during the audit period. The amount alone does not indicate a noncompliance, but identifies that evaluation by the agency was warranted due to the potential for like-item purchases.

APPENDIX C – Statutory and Regulatory Noncompliance

Statute, Regulation, Other	Requirement	Agency Comment/Explanation	OPA Description of Noncompliance
KRS 45A.625(1)	The Finance and Administration Cabinet shall develop a strategy to: (a) Replace at least fifty percent (50%) of the state-owned passenger vehicles and light-duty trucks managed by the Division of Fleet Management as of January 1, 2014, with: 1. New qualified hybrid motor vehicles as defined in 26 U.S.C. sec. 30B; 2. New advanced lean burn technology motor vehicles as defined in 26 U.S.C. sec. 30B; 3. New qualified fuel cell motor vehicles as defined in 26 U.S.C. sec. 30B; or 4. New qualified alternative fuel motor vehicles as defined in 26 U.S.C. sec. 30B; and (b) Increase the use of ethanol, cellulosic ethanol, biodiesel, and other alternative transportation fuels as defined in KRS 152.715 to reduce state government's dependence on petroleum-based transportation fuels, where possible.	Fleet always strives to order vehicles that work for different agency needs. Fleet continues to try, and keep our vehicles replaced in a time line that keeps our vehicles safe, and dependable. Fleet purchases vehicles from the contracts available to the Commonwealth of Kentucky.	DFM did not have a documented strategy. However, its November 2020 report to LRC identified it met the 50% goal as of that time.
KRS 45A.625(2)	On or before December 1, 2013, and every December 1 thereafter, the cabinet shall report to the Legislative Research Commission: (a) The strategy for transitioning to motor vehicles outlined in subsection (1) of this section, including a life-cycle cost comparison, and a projected timetable to replace motor vehicles in the state motor pool as provided in subsection (1) of this section; and (b) The strategy for increased use of ethanol, cellulosic ethanol, biodiesel, and alternative transportation fuels, including the targeted amount and the dates by which these targets shall be achieved.	No comment provided.	This report was not provided prior to 2020. DFM did provide this report to LRC for 2020. However, the 2020 report did not include a life-cycle cost comparison. Note that an accurate life-cycle cost comparison by vehicle may be impaired due to FOS data integrity concerns noted in this report.
HB 352 (2020 Regular Session of the General Assembly) and prior biennial budget bills through HB 303 (2016 RS)	The Secretary of the Finance and Administration Cabinet shall restrict permanently assigned vehicles to only Constitutional Officers, the Court of Justice, Executive Cabinet Secretaries, law enforcement, and those who are assigned vehicles for other public safety purposes. A report listing the recipients of permanently assigned vehicles from the State Motor Vehicle Fleet shall be submitted to the Interim Joint Committee on Appropriations and Revenue by August 1 of each fiscal year.	Finance only has authority over Finance, and administratively attached agency, employees. Therefore, we only have a procedure that applies to Finance employees.	DFM did not update Agency and Drivers Guides to include the restrictions noting individuals that may be approved for a permanently assigned vehicle. Additionally, DFM did comply with the reporting requirement in 2020, but did not provide the required report to LRC in previous years.

APPENDIX C – NONCOMPLIANCE MATRIX, Continued

Statute, Regulation, Other	Requirement	Agency Comment/Explanation	OPA Description of Noncompliance
200 KAR 40:020 Section 2(3)(a)	The secretary may, upon written justification from an agency head, authorize the establishment of an agency-specific motor pool.	No comment provided.	DFM did not have this written justification on file for requests and approvals of agency-specific fleets.
200 KAR 40:020 Section 2(3)(c)	An agency with authority delegated pursuant to this subsection shall submit cost effectiveness and inventory reports to the cabinet on an annual basis or as requested by the cabinet to demonstrate the agency-specific motor pool meets the requirements of this subsection.	This is not being performed at this time.	This requirement, as written, is the responsibility of agencies with approved agency-specific fleets. These agencies have not been submitting this required annual report. As noted in the finding, DFM did not have proper internal controls established to monitor this requirement, and therefore, did not follow-up with noncompliance agencies.
200 KAR 40:020 Section 4(3)	The cabinet shall consider for replacement a nonexempt motor vehicle that: (a) Is seven (7) years old; (b) Has been driven 140,000 miles; (c) Is inoperable; (d) Is unsafe; or (e) Is in need of extensive repair that would not be economically feasible.	No comment provided for this matrix. However, discussions with DFM management identified there are budgetary constraints that have prevented this regulation from being met.	DFM does not comply with this regulation. Considerations are not given to the mileage and age criteria listed due to budgetary constraints. Most recently, DFM reviewed vehicles for replacement at 180,000 or 10 years. However, inventory records reflect that not all vehicles at these levels are replaced.
200 KAR 40:020 Section 8(3)	A record of maintenance history and costs for an exempt motor vehicle shall be kept by the agency and submitted to the cabinet on an annual basis or as requested by the cabinet to demonstrate the agency-specific motor pool meets the requirements of this section	This has not been performed in the past few years	DFM did not obtain or maintain the maintenance history and costs for exempt motor vehicles.

MANAGEMENT'S RESPONSE

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GOVERNOR

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Holly M. Johnson
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Vacant
EXECUTIVE DIRECTOR

John Ard
FLEET OPERATIONS LEADER

March 14, 2022

MEMORANDUM

TO: Finance and Administration Cabinet
Office of Policy and Audit

FROM: Division of Fleet Management

RE: Response to OPA Report 2021-02, Division of Fleet Management Audit

The Division of Fleet Management (DFM) submits the following response to OPA Report 2021-02. DFM welcomes the insights and suggestions provided by OPA's team of auditors and looks forward to implementing meaningful solutions and improvements to address the report's findings while also pursuing the following four overarching goals:

1. Provide safe, reliable, and cost-effective solutions to meet the Commonwealth's ground transportation needs.
2. Establish a culture of continuous improvement with an emphasis on customer service.
3. Ensure billing accuracy, data integrity, accurate cost-recovery models and pricing are inextricably embedded in our processes and decision-making every day.
4. Implement policies and procedures aligned with applicable laws and regulatory guidanceto ensure compliance and assure DFM team-members and users of its services judiciously manage and properly operate the Commonwealth's assets in a fiscally responsible manner.

The OPA audit team detailed 12 findings of deficiencies in DFM's current operations. The OPA, paired with the recent legislative audit, provides a valuable roadmap for improvements and necessary course corrections. In the following paragraphs, DFM addresses and provides a corrective action plan for each specific OPA finding. The following are actions and efforts already underway to improve DFM's operations and management. The Secretary of the Finance and Administration Cabinet (FAC) installed new leadership at DFM specifically to address issues now documented in the audits. In accordance with the Secretary's direction, the new leadership reviewed DFM's Organizational Structure and proposed a realignment of positions and responsibilities to better address the requirements and challenges of DFM's mission. The proposed structural revision currently awaits legislative review and approval. Additionally, the new DFM leadership undertook an in-depth analysis of expenses and revenues to determine the proper rate structure for fleet vehicles for the next biennium. The team's analysis focused on addressing the existing imbalance between revenues and expenditures, as well as calculating accurate rates for each class of vehicle to ensure each vehicle and agency is properly charged.

New management then turned to better managing expenses, particularly with regard to inventory. In the process, DFM quickly discovered the current fleet management system falls short of meeting DFM's needs and cannot provide the reports necessary to properly manage a passenger fleet. Since then, DFM has conducted research and met with others in the industry in search of an effective software solution that automates and better integrates related systems DFM currently employs, like GPS tracking and telematics, and leverages logic checks and business rules to improve data integrity. It is imperative any software solution offer packaged reports, along with ad hoc reporting capabilities, designed to provide DFM management with the information needed to properly manage all aspects of fleet operations.

Notwithstanding difficulties with the current management software, DFM continues to explore opportunities to realize savings by eliminating excessive inventory. For example, when new leadership arrived, the motor pool inventory included 23, 12-passenger vans. After analyzing utilization of these vehicles, DFM was able to reduce that number. The motor pool inventory currently includes only 12 of these vans. With proper management software enabling better analysis, other similar efficiencies will follow.

While reviewing expenses, it became apparent that a modest investment in equipment would allow DFM to reduce annual towing costs by handling a significant portion of its towing requirements in-house. DFM purchased the needed equipment and is in the process of conducting operational and safety training needed to deploy this initiative.

The Legislative Audit report highlighted DFMs inconsistent reporting to LRC. DFM has since undertaken an earnest and methodical approach to address each of those statutorily required reports. On July 23, 2021, DFM provided LRC the 2021 Permanently Assigned Vehicle (PAV) report as required by HB192 of the 2021 Regular session of the General Assembly. On November 29, 2021, DFM provided LRC the annual Alternative Fuels and Life Cycle Cost Analysis Report as required by KRS 45A.625. Additionally, DFM created and distributed a template to facilitate compliance with the 200 KAR 40:020 requirement for agencies with independent motor pools to provide annual cost effectiveness reports.

Under new leadership, DFM began an immediate focus on better meeting the intent of KRS 45A.625, which requires FAC to develop and implement a strategy for greater use of alternative fuels motor vehicles. Since 2005, DFM has maintained a small number of hybrid vehicles. The focus of DFM's alternative fuels strategy has been the procurement of E85 (ethanol) fueled vehicles. This year, DFM is shifting strategy to emphasize the procurement of hybrid electric vehicles (HEVs) and plug-in hybrid electric vehicles (PHEVs). Industry advances in electric vehicle (EV) technology and the national push to aggressively deploy infrastructure and incentivize EV production and sales makes it the right time to commit to EVs as a major piece of the Commonwealth's alternative fuels strategy. In early November 2021, DFM placed its initial

2021 vehicle refresh purchase, which included a total of 23 electric vehicles, including 19 HEVs and four PHEVs. The purchase will triple the number of electric vehicles in inventory. To prepare for the new PHEVs and facilitate the inclusion of fully electric battery electric vehicles (BEVs) and additional PHEVs in future purchases, DFM will invest in charging infrastructure deploying up to 30 charging stations in the coming year. It is important to note that the future DFM expansion to plug-in electric vehicles will be dependent upon state and federal investment in charging infrastructure.

DFM has also improved accounting practices to better track expenses. Under the new leadership, DFM and the Office of Budget and Fiscal Management have worked together to create an extensive list of accounting templates. These templates enable improved expense tracking and allows DFM to better reconcile expenditures between the fleet management system and EMARS.

DFM's Agency and Drivers Guides are out of date. The current versions were last revised May 2011. Staff is drafting an updated guide that combines the information of the two previous complementary guides into a single comprehensive document. Staff have also drafted proposed language to reconcile conflicting current statutory requirements regarding the registration of state-owned vehicles, which is pending review.

1. The following sub-paragraphs specifically address each of the 12 findings from OPA 2021 report.

    a. **Finding 2021-02-01**: DFM's Control Environment was not conducive to meeting all objectivesrelated to governing State-owned vehicles.

        Concur. DFM is addressing this deficiency. In September/October 2021, DFM developed a template for agencies with independent fleets to submit their annual report on cost effectiveness. We have received agency responses and will continue to work with agencies to ensure they meet statutory and regulatory requirements regarding agency managed state-owned vehicles. DFM has also identified the need for other policies governing a myriad of issues, such as excessive idle time, excessive speeds or other moving violations, and recuring accidents. Newly established and existing policies will be clearly communicated, easily referenced, periodically reviewed for accuracy, and consistently and fairly enforced. Under the proposed new organizational structure, a designated position will oversee policy and compliance, an area previously lacking personnel resource. Additionally, we will address the overarching need for reconciliation processes. DFM is collaborating with the OAS Office of Budget and Fiscal Management to establish improved processes to address this issue and will continue to implement changes. To improve data reconciliation regarding mileage, DFM is requiring the new software solution to include basic data logic checks that automatically flag or reject flawed data entries, and the organizational restructure will ensure sufficient employee resources to perform critical reconciliation functions.

b. **Finding 2021-02-02**: DFM's organizational structure and employee job duties do not cover all keyfunctions and internal controls.

   Concur. DFM is not currently adequately staffed, and the current structure does not ensure performance of the functions assigned by statutes and regulations. The proposed restructuring, currently pending Legislative approval, seeks to address these issues. DFM will build a matrix of required core functions, including legislatively mandated reports; the transition to alternative fuel vehicles; biennial rate planning with at least annual review and assessment; policy management and compliance; internal audit (reconciliation); inventory management, including contract management and vehicle refresh and retirement; preventative maintenance plans and management; vehicle repairs; personnel actions; help desk and motor pool administration; and more. The matrix will also reflect the statute, regulation, policy, or other guidance driving the function's requirement and the division, branch, and section responsible for completing the associated tasks. This approach will also allow us to analyze each function and identify actions needed to better ensure quality outcomes.

c. **Finding 2021-02-03**: DFM does not perform sufficient analysis to ensure it meets Internal ServiceFund break-even requirements.

   Concur. This issue has been largely addressed. DFM performed an in-depth analysis of expenses and revenues, assessed the total cost of ownership for vehicles in each class, and recommended rates for the next biennium. Additionally, an analyst prepares financial reports monthly and leadership reviews and leverages the information provided. The implementation of a new fleet management software solution will improve efficiency and expand data provided in reports for better analysis.

d. **Finding 2021-02-04**: DFM does not evaluate the optimal fleet size and composition and does notconsider vehicles for replacement in accordance with 200 KAR 40:020.

   Concur. Obtaining meaningful and reliable reports from the current management software solution continues to impede full assessment of this issue. DFM has already reduced some motor pool inventory. With improved reporting and additional analysis, DFM will realize further inventory reductions in both the motor pool and the leased vehicle inventories. DFM is pursuing online motor pool reservations and automated 24/7 motor vehicle checkout and returns through a new management software solution. The capability will be field tested first at the main motor pool at DFM's Frankfort offices, but the technology may offer the ability to establish small satellite motor pools, allowing greater vehicle sharing across agencies and resulting in additionalinventory reductions in the Agency Leased DFM. The reasons behind DFM's annually recurring decision not to purchase more vehicles prior to 2020 are not clear. Funds were available. Since the rate reductions in 2019, DFM has not generated sufficient revenues to cover the full cost of replacement vehicle purchases. Carryforwards from pre-2019 years have bridged the gap, but those reserves are nearly exhausted. In 2021, chip shortages and the resulting limited manufacturer inventory impacted our ability to make purchases. Despite orders placed for a far greater number of vehicles, DFM was only able to secure delivery of vehicles totaling $923,541 in FY 2021, millions of dollars below what was needed to properly manage the age of the fleet. Fleet refresh efforts have fallen behind where they should be, and it will take time, years, to bring vehicle age and mileage back in-line with current statutory guidance. DFM will undertake additional analysis of the current refresh guidance and determine if amended language should be offered for FAC leadership and legislative consideration.

e. **Finding 2021-02-05**: DFM did not routinely evaluate its pricing model or lease rates.

   Concur. DFM has not historically performed the necessary analysis to properly set rates. The analysis conducted prior to the rate change in 2019 appears to have centered on meeting a prescribed aggregate revenue reduction and thus failed to determine full cost of ownership or conduct lifecycle cost analysis when setting the new rates. As a result, current rates are set significantly below where they should be for DFM to meet its fleet refresh obligations while operating as an internal service organization. DFM conducted the requisite full-cost-of-ownership analysis for the recent biennial budget exercise and made rate recommendations for FY 2023 and 2024 accordingly, DFM will continue to monitor revenues and expenses via newly establish monthly financial reports to improve efficiencies and reduce unnecessary expenditures and will conduct formal annual rate reviews to assess budget performance under the new rate structure.

f. **Finding 2021-02-06**: DFM does not have a preventative maintenance program and does not maintain accurate data to adequately monitor maintenance costs.

   Concur, with comment. The current maintenance program closely monitors oil change intervals and provides automated emails each week to agency representatives identifying vehicles due an oil change. Oil change notifications are triggered by either elapsed time or mileage since the previous oil change. Once triggered, agencies continue to receive weekly reminders until the requirement is met. Currently, this proactive program addresses only oil changes, and (tangentially) tire rotations. DFM relies on in-house techs, or vendors, to review maintenance history and the manufacturer recommended service schedule when a vehicle is brought in for an oil change or an unscheduled repair to identify other needed periodic/preventative maintenance. This approach falls short of our responsibility to customers and puts manufacturer warranties at risk. DFM plans to rely on a robust fleet management software solution that can identify, monitor, and track manufacturer recommended maintenance and send system generated notifications to the agency when each item comes due.

g. **Finding 20210-02-07**: DFM does not comply with small purchase procurement requirements in FAP 111-55-00.

   Concur. The number of vendors and transactions involved make this a challenging issue to resolve, but DFM is working with the Office of Budget and Fiscal Management and Office of Procurement Services to find an acceptable solution.

h. **Finding 2021-02-08:** DFM's billing and accounts receivable monitoring processes are not adequate to prevent, detect, and correct errors.

Concur. DFM has made progress toward correcting this deficiency, but more detailed analysis and new or improved processes are still needed. The recently implemented monthly financial reports compare revenues and expenditures from EMARS and Fleet Operation System (FOS) and identify, by cost or revenue type, the monthly and year-to-date totals and variances. Analysis conducted so far indicates some base factors recurrently contribute to differences. One is simply timing. Transactions are posted in one system, typically FOS, before the same transaction hits the other system, causing the same transaction to post in different months in the two systems. The second issue centers on data integrity. Future reconciliation efforts should allow DFM to account for the timing differences and help identify where integrity issues exist. This will allow us to correct the existing data and employ better processes and software-enabled, automated data logic checks to help avoid these errors in successive months. Billing errors are of great concern, and we have more work to do here. Transitioning vehicles to GPS (GeoTab) has greatly reduced errors by allowing DFM to rely most often on the telemetric data taken from the vehicles' onboard computer to record mileage. However, DFM is not permitted to deploy GPS to all state vehicles. Additionally, some pre-2008 vehicles are not capable of providing reliable telemetric data, and some vehicles equipped with GPS operate almost exclusively in areas without cellular communication coverage. These 'exception' vehicles continue to rely on manual mileage reporting, which increases the opportunity for human error. DFM is developing improved processes to reduce agency input errors and better backstopping processes at DFM to more reliably identify agency errors before a bill is generated.

i. **Finding 2021-02-09:** DFM did not have processes to confirm GPS mileage data used for billing.

Concur. As indicated in the response to Finding 2021-02-08, the mileage data issue is multifaceted. Although DFM often refers to the use of "GPS" mileage data, the GeoTab reported data normally does not rely on GPS calculations to provide mileage. Instead, GeoTab provides mileage data pulled directly from the vehicle's computer and reflects the actual current odometer reading from the vehicle with some exceptions. As noted in the report, some pre-2008 vehicles are not compatible with the GeoTab solution and cannot pull telematics from the vehicle's computer. Instead, mileage for these vehicles is calculated by GPS. Additionally, some vehicles operate almost exclusively in locations without cellular service, which prohibits the GeoTab modem from communicating its data back to DFM. Instead, DFM must rely on agency reporting to determine mileage for these vehicles. Finally, in some instances, a vehicle's GeoTab unit stops sending updates. This may be due to a unit malfunction, or the vehicle may have moved to an area without cellular coverage and can no longer transmit the data, or the unit may have been disconnected. DFM has not historically had a good way of monitoring and reconciling any of the issues listed above but will institute processes to correct this. Initial changes will include actively monitoring for indications that a unit has stopped providing telemetric data for three or more days and taking swift action to diagnose and correct the cause and exporting GeoTab and Agency reported data prior to billing runs where the data can be filtered and/or flagged for improbable values. An attribute DFM will require of the new fleet management software solution includes integrated data logic/integrity checks, which will automatically flag or reject improbable data submissions and require manual reconciliation.

j. **Finding 2021-02-10**: DFM did not have a clear understanding of its responsibilities for tasks assigned to OAS Budget and Fiscal Management.

   Concur. There is an ongoing effort to resolve this issue. DFM staff are working on process changes for the monthly billing that will emphasize its responsibility to review monthly billing amounts for accuracy and completeness before they are turned over to OBFM for processing. Likewise, DFM is receiving monthly reports or updates specifically to enable continuous monitoring for delinquent accounts. DFM is also working with OBFM to determine the best way to recoup registration fees from the responsible agencies. Finally, as referenced earlier in this memo, DFM has completed in-depth analysis and procurement planning as part of its recent biennial rate review, lifecycle cost analysis and alternative fuel procurement strategy. Rates based upon these factors will support better refresh cycles for our inventory.

k. **Finding 2021-02-11**: DFM did not comply with certain statutory and regulatory requirements and did not have adequate internal controls over monitoring agency compliance with DFM requirements.

   Concur. Each of the seven items identified in appendix C have been or are currently being addressed with the exception of 200 KAR 40:020 section 2(3)(a). The exception is the requirement to have written justification from an agency head for FAC authorization for the establishment of an independent fleet. Current DFM personnel have no record of these documents being secured during the initial request process and there is no realistic way to create, or recreate, them years after the event. This requirement will be strictly enforced going forward. The following is a synopsis of each of the remaining six statutory requirements listed in the appendix.

   KRS 45A.625(1) and KRS 45A.625(2): DFM provided LRC a report on December 1, 2021, answering the requirements contained in these statutory references. Specifically, the report included the strategy to continue our pursuit of more fuel efficient and alternative fuel vehicles. The report discussed differing approaches to meeting the legislative goal and reflected a shift in emphasis in coming years to electric and/or hybrid electric vehicles. The report affirmed DFM's continued compliance with the '50%' goal and, for the first time, included a lifecycle cost analysis. DFM will continue to comply with the requirements of the statutory guidance and refine the element contained therein over the coming years.

   HB 352 (2020) prior biennial bills through HB 303 (2016 RS): Per HB 192 (2021), DFM provided the required report to the stipulated Legislative Committee on July 23, 2021.

200 KAR 40:020 Section 2(3)(c) & 200 KAR 40:020 Section 8(3): DFM has developed and provided a template to enable agencies to comply with this legislative requirement. DFM has received initial replies and will work with the affected agencies to obtain complete information. DFM will continue to engage with the affected agencies to help them meet their regulatory requirements.

200 KAR 40:020 Section 4(3): As previously discussed, DFM has conducted significant analysis, but will require significant funding over time to bring DFM into compliance with the current 7-year/140,000-mile refresh guidance. DFM will continue to monitor financial data and develop processes and practices to reduce expenditures, and assess and revise future rates, as needed, to move steadily toward compliance. DFM is also reviewing the mileage and age requirement in the regulation for possible revision.

l. **Finding 2021-02-12**: DFM may benefit from developing a customer service plan

Concur. DFM's reputation is important, and we endeavor to improve it going forward. DFM recognizes improved communication with customers will help us focus better on what's important to them. 'How's my driving' and the motor pool customer survey cards will remain important components of our customer service approach, but both will benefit from better tracking and analysis of the data we collect. Additionally, DFM is striving to better understand the concerns of other segments of our customer base, including implementing additional surveys targeting agency input across the commonwealth, and engaging customer agency leadership to better understand their perspectives and desires.

In conclusion, both the Legislative and the OPA audits documented a significant number of deficiencies that are being addressed. Already, DFM has made progress on many fronts. We will continue to work on those presently in progress and refine our new processes and solutions as we move forward. As we successfully implement corrections on these initial areas of concerted effort, we'll pivot to fully engage on the other remaining deficiencies. Some corrections will be implemented very quickly. Others, like improving inventory age and mileage numbers to be more in line with legislative intent, will take time and significant money. Throughout all these efforts, the end goal must include

- A focus on understanding and adhering to all statutory and regulatory requirements.
- A commitment to pursuing sound fiscal practices while providing the Commonwealth's agencies and employees necessary and essential ground transportation.
- A persistent commitment to continuous improvement; and
- An uncompromising emphasis on customer service.