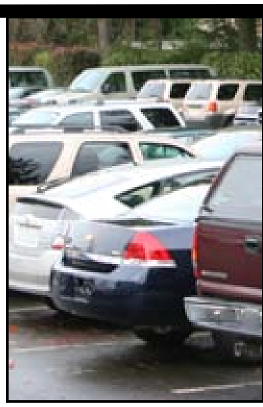
Performance Audit Report

Washington Department of General Administration
State Motor Pool



February 28, 2007

Washington State Auditor Brian Sonntag, CGFM

A letter from State Auditor Brian Sonntag

February 28, 2007

Brian Sonntag, CGFM
Washington State Auditor

To the citizens of Washington:

I am very proud to present this report, our first on a performance audit performed by the State Auditor's Office under Initiative 900.

We believe that when Washington State citizens voted for this initiative in November 2005, they were seeking another way of determining whether governments are being good stewards of public money.

That is why, as well as making recommendations for improvements, we are recognizing areas in which governments are doing a good job. We want to present a balanced report and recommendations that are constructive and "do-able."

I also want to thank those of you who participated in this process by responding to surveys, attending town hall meetings, and through correspondence. One of the most enjoyable parts of our jobs is hearing from you and we have laid out an excellent framework to continue this.

I also can't say enough about the skilled, professional staff in this agency, and at the Department of General Administration, who worked on and responded to this audit. The state is fortunate to have such hard-working public servants.

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Summary of the Motor Pool audit

Cost savings

We identified $1.5 million in cost savings that could be achieved during fiscal year 2008. Cumulative savings reach $6.3 million in 2015 and $21 million in 2023. The audit cost $114,120.

Why did we audit the Department of General Administration's Motor Pool?

In the course of our pre-planning, we found that other states and cities have identified significant cost savings when they conducted similar performance audits. Initiative 900, approved by voters in November 2005, urges us to look for opportunities for cost savings.

I-900 also urges us to look for opportunities to recommend changes in state policies and law to make it easier for governments to conduct their business in the most effective and efficient manner possible.

We also chose this audit because it is a foundation for a series of audits of all of the state's motor pools and vehicle fleets. The Department of General Administration provides a central service to all state agencies through its motor pool. However, many state agencies have their own fleets, from the extensive, specialized fleets of the Washington State Patrol and the Department of Transportation to small, sedan-based fleets such as the Department of Health. We will eventually audit all of these fleets, at which point we could potentially recommend alternate ways to manage those fleets in addition to identifying best practices already in place within Washington.

In the long term, all of the state-level motor pool performance audits will be a model for a series of audits of local government vehicle fleets and motor pools.

Findings

Our audit revealed three findings:

1. The Motor Pool has 113 underused vehicles that should be sold or reassigned.
2. The Motor Pool's rental rates do not cover its operating expenses.
3. The Motor Pool's method of purchasing vehicles results in excess interest costs.

Recommendations

1. The Motor Pool should reassign the underused vehicles. Those vehicles that are more than six years old should be sold.
2. State employees who travel less than 10,000 miles per year should drive their own vehicles and submit for mileage reimbursement or use alternative transportation.
3. The Motor Pool should raise its rental rates to cover its operating expenses.
4. The Motor Pool should revise its method of purchasing new vehicles to reduce interest paid on vehicle loans. We recommend a combination of cash purchases and financed purchases.

Background information at a glance

- The motor pool has 1,470 vehicles:
  1,300 vehicles are permanently assigned to various state agencies.
  170 vehicles are rented to state agencies for short trips and returned to Motor Pool.
- Our audit examined only the permanently assigned vehicles.
- The Motor Pool purchases an average of 280 vehicles each year. The Motor Pool fleet has grown from 1,283 vehicles in 2001 to 1,470 in 2006.

How did we collect the audit information?

Our audit field work took place from September 2006 through January 2007. We analyzed data from fiscal year 2006, which was July 1, 2005 through June 30, 2006.

Our audit authority

Voters approved Initiative 900 in November 2005, giving the State Auditor's Office the authority to conduct independent performance audits of state and local government entities on behalf of citizens. The purpose of conducting these performance audits is to promote accountability and cost-effective uses of public resources.

The State Auditor's Office conducted this performance audit in accordance with Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

No privileged or confidential information was omitted in this report.

The complete text of Initiative 900 is available on our Web site at http://www.sao.wa.gov/PerformanceAudit/PDFDocuments/i900.pdf.

After the performance audit

What's next

The release of this audit report triggers a series of actions by the state Joint Legislative Audit and Review Committee. The Committee will:

- Hold a public hearing within 30 days of this report's issue to receive public testimony. The Committee will publish a summary of the public testimony on its Web site after the hearing.
- Review this report to identify audit recommendations that request legislative action.
- Distribute this report to the appropriate legislative committees.
- Publish and distribute a report by July 1 of each year on the status of legislative action on recommendations in this report. Justification must be provided for recommendations not followed. Those justifications may be subject to follow-up performance audits. Details of other corrective action must be provided as well.

Follow-up performance audits of any state or local government entity or program may be conducted when determined necessary by the state auditor.

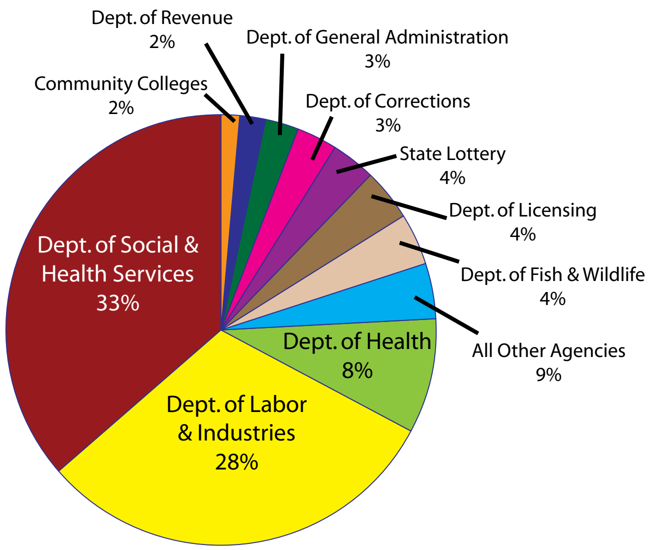
The Joint Legislative Audit and Review Committee posts its public hearing schedule on its Web site: http://www.leg.wa.gov/JLARC/

Background about the Motor Pool

State law (RCW 43.19.565) passed in 1975 required the Department of General Administration to establish a motor pool to provide vehicles to state agencies on a temporary or permanent basis when the need is demonstrated. The law also directs the Motor Pool to acquire, maintain, store, repair and replace vehicles.

The Motor Pool manages a fleet of 1,470 vehicles including sedans, sport-utility vehicles, light trucks and vans. Of these, 1,300 vehicles are permanently assigned to state agencies or state employees. The remaining 170 vehicles are rented to agencies for short trips and returned to the Motor Pool.

1. Motor Pool customers as of June 30, 2006



Agencies that rent vehicles pay a daily rate and a mileage rate that vary by vehicle type. During the audit period, the Motor Pool collected approximately $7.2 million from agencies renting vehicles.

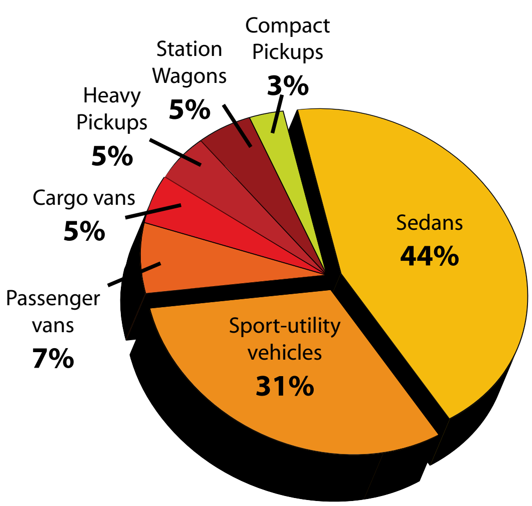
Agencies that use the Motor Pool vehicles must comply with the Office of Financial Management's policies, which govern all state agencies' financial matters, including the management of vehicles.

Purchasing practices

The Motor Pool's vehicle purchases have increased over the past six years, resulting in an increased fleet size (see Graphs 7 and 8 on page 15).

The Motor Pool replaces one-sixth of its fleet each year, averaging 280 new vehicles per year. The Motor Pool purchases vehicles in bulk, usually 10 to 25 vehicles at a time, at a reduced rate using a pre-negotiated contract between the state and the manufacturer or dealer. Some contracts allow a discount if more than 25 vehicles are purchased and provide early payment discounts.

2. Types of vehicles in fleet as of June 30, 2006



We compared state contract prices to consumer prices for compact, mid-size and full-size sedans and found the contracts do give the Motor Pool better prices than what consumers pay. This analysis assumes the Motor Pool takes advantage of all available discounts.

Type of sedan	Contract price	Invoice price	MSRP
Compact	$11,744	$15,083	$16,079
Mid-size	$12,785	$17,275	$18,219
Full-size	$15,744	$21,468	$22,654

Objectives

Our audit was designed to answer these questions:

- Is the Motor Pool giving priority to the purchase and use of gas-electric hybrid vehicles and other fuel-efficient and low-emission vehicles?
- Does the Motor Pool know to whom it has assigned all vehicles and maintain an accurate inventory of vehicles?
- Do vehicle rental rates cover the costs of operating the Motor Pool?
- Are vehicles acquired using the most cost-effective method?
- Are assigned vehicles used in a way that economically justifies long-term assignment?

Scope

The performance audit was conducted from September 2006 through January 2007. We analyzed data from fiscal year 2006. The scope of this audit did not include a review of the Motor Pool's rate-setting methods, vehicle maintenance, customer satisfaction, accident reporting, whether vehicles should be available in additional locations in the state, or the 170 vehicles that are rented for short trips.

Initiative I-900, which gave the State Auditor's Office the authority to conduct performance audits, provides nine areas to consider when conducting performance audits. Of those nine, these pertained to this audit and helped shape the scope:

- Identification of cost savings.
- Identification of best practices.

First in a series

This audit is the first in a series of audits of all state vehicle fleets. We will conduct comparable performance audits at other agencies to ascertain whether a centralized state motor pool for all state agencies would be the most economical and effective way to manage all state vehicles. Other agencies with motor pools include:

- Department of Health
- Department of Corrections
- Department of Fish and Wildlife
- Department of Transportation
- Department of Ecology
- Parks and Recreation Department
- Department of Agriculture
- Department of Natural Resources
- Gambling Commission
- Washington State Patrol
- Liquor Control Board
- Attorney General's Office
- State universities
- Community and technical colleges

The results of these audits will be considered when we plan performance audits of local governments' motor pools.

Audit results

The state made a wise decision to establish and maintain a state motor pool. Our audit found that the Motor Pool provides a valuable service to state agencies. Generally, it provides relatively new vehicles at prices below the private sector. We found that renting vehicles from the Motor Pool is an economically sound practice for agencies in most circumstances.

Our audit identified two areas in which the Department of General Administration's Motor Pool is operating effectively.

1. During the audit period, the Motor Pool continued to replace some of its aging vehicles with gas-electric hybrid vehicles to achieve better gas mileage, as required by Executive Order 05-01 (see Appendix B).
2. The Department was able to account for all of the Motor Pool vehicles. We verified that the Motor Pool's vehicle inventory records were accurate by comparing them to the Department of Licensing's records.

Though not part of the Motor Pool, the Department's Office of State Procurement develops and administers vehicle purchasing contracts that result in cost savings to state agencies.

Our audit also found:
- Long-term assignments of vehicles is not cost-effective in some cases.
- The Motor Pool's rental rates do not cover operating costs.
- Vehicles are not acquired in the most cost-effective manner.

Based on the information contained in the findings that follow, we are making recommendations that would result in these cumulative cost savings:

Fiscal Year	**Dollars saved**
2008	\$1.5 million
2012	\$2.3 million
2017	\$9 million
2023	\$21 million

Appendix C contains a more detailed table of cumulative cost savings by fiscal year.

The Motor Pool has 113 underused vehicles that should be sold or reassigned.

Background

Monitoring the frequency and distance of vehicle use is a critically important practice in managing a motor pool. Such oversight represents an opportunity to save significant amounts of money. The National Association of Fleet Administrators, Inc., a non-profit organization, reported in 2003 that one in five fleets had tightened eligibility requirements for permanently assigned vehicles in the previous two years.

The Office of Financial Management sets travel policy for all state agencies. Most permanently assigned vehicles must be driven 1,000 miles per month or 12,000 miles per year unless certain exceptions apply. Our research of other states and fleet associations supports this standard.

The Office of Financial Management's exceptions to the 12,000-mile rule are:

1. Individuals who are on 24-hour call.
2. Employees who need a specially equipped or special-purpose motor vehicle that limits the use of the vehicle; or a vehicle that is essential to a particular agency, program, individual, or purpose. Examples are vehicles with caged back seats, vehicles equipped with wheelchair lifts and mail trucks.
3. The motor vehicle is used by a statewide elected official in the Executive Branch.
4. Justification for assignment has been approved by the Director of the Office of Financial Management.
5. If the vehicle is five years old or more or has 75,000 miles or more, the requirement is 500 miles per month. We did not consider this exception in our audit because our analysis shows that this is not cost-effective for Motor Pool customers.

State agency employees who want to request a permanently assigned vehicle must complete and submit to the Motor Pool the "Request for Permanent Assignment of Motor Pool Vehicle" form documenting the type of vehicle requested and justification of need.

In 2005, then-Governor Gary Locke issued executive order 05-01, "Establishing Sustainability and Efficiency Goals for State Operations," requiring the Office of Financial Management to conduct its own audit of the efficiency of all of state vehicle fleets by July 1, 2006. The audit's objective included evaluating the cost-benefit of personal vehicle use in place of renting vehicles. The audit was never conducted. Office of Financial Management told us funding was not provided to conduct the audit. If this audit had been conducted, the State Auditor's performance audit may not have been necessary.

Executive Order 05-01 is in Appendix B of this report.

We explored the cost benefit of personal vehicle use by comparing the cost to rent a Motor Pool vehicle to the cost of reimbursing employees for the mileage they incur for state business (see Table 3 on page 10).

We researched vehicle usage studies, surveys and audits. Our research indicated that it is more cost-effective to use a fleet vehicle instead of a personally owned vehicle when the vehicle is driven at least 10,000 miles per year, barring other exceptions.

Finding 1

Note: Our comparison uses the mileage reimbursement rate in effect during the audit period and unreduced rental rates for a sedan. The rental rate reductions are discussed later in this report.

3. Reimbursing mileage vs. permanently renting Motor Pool sedan

Miles driven	*Motor Pool full vehicle rental rate	**Mileage reimbursement	Cost savings
3,000	$3,782	$1,335	$2,447
6,000	$4,196	$2,670	$1,526
10,000	$4,748	$4,450	$298

* monthly rate plus mileage
**$0.445 per mile

We found that approximately one-fourth of the permanently assigned vehicles in the Motor Pool's fleet were driven less than 10,000 miles from July 2005 through June 2006. We reviewed the "Request for Permanent Assignment of Motor Pool Vehicle" forms to determine which exception, if any, applied to these vehicles. The forms did not identify the vehicle to which the exemption applied.

Vehicle usage research indicates that permanent assignment is cost-effective when employees drive at least 10,000 miles per year.

We contacted each agency's Transportation Officer and asked them which exception applied. We found that these responses were not always accurate. Therefore, we contacted drivers of some of the vehicles. We determined that 209 vehicles met at least one of the exceptions listed on page 9; 113 vehicles did not meet the criteria for an exception.

Condition

We determined that 113 vehicles driven less than 10,000 miles in the year did not meet any of the criteria for the exceptions that we considered (see Graph 4 below).

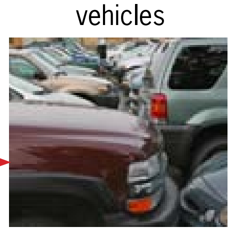
We reviewed the age of the 113 vehicles and found that 28 of them are more than six years old and, if sold, would net the Motor Pool about $86,000. The remaining 85 vehicles could be reassigned to the Motor Pool at large, replacing the oldest vehicles in the fleet. We reviewed the number and type of vehicles that the Motor Pool typically purchases each year and found that those 85 vehicles could substitute for new purchases.

4. How we determined $2 million in cost savings

Entire fleet

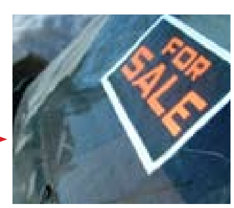
Remove vehicles driven more than 10,000 miles per year

Under-used vehicles



Remove vehicles that qualify for exception to 12,000-mile rule

Vehicles to be sold or reassigned (113 vehicles)



Remove vehicles more than six years old (28 vehicles)

Vehicles to be reassigned instead of purchasing new vehicles (85 vehicles)

By selling 28 vehicles and reassigning 85 vehicles, the Motor Pool does not have to purchase 113 new vehicles, which would save $2 million. We recognize that employees will still need to drive for business purposes should the Motor Pool remove the 113 vehicles from the fleet.

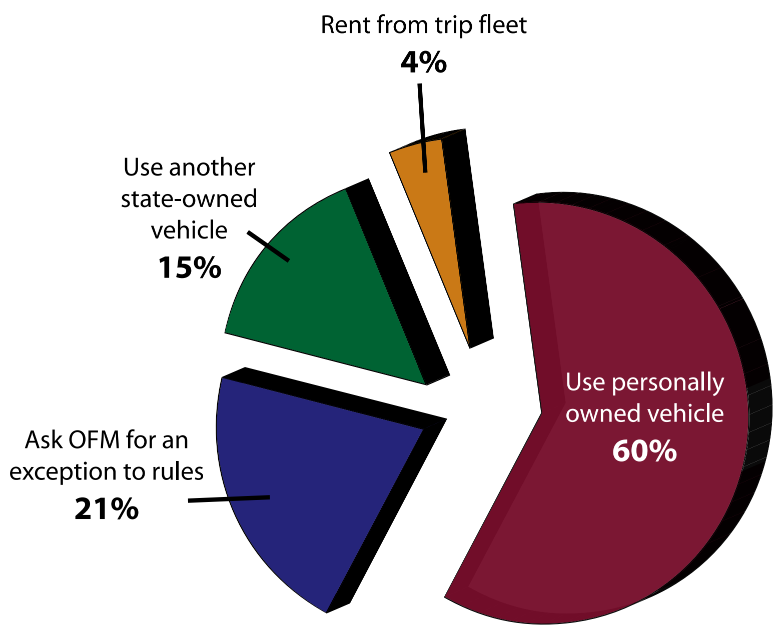
The Department expressed concern that removing 113 vehicles and not making a purchase of new vehicles would result in the fleet becoming older. We used actual acquisition dates of vehicles in the fleet to determine the average age of the fleet over the next six years. We found that in fiscal year 2008, vehicles are an average of 27 days older than the unreduced fleet. In 2009, the vehicles are an average of six days older. In 2010, the fleet begins to get newer; 27 days newer in 2010 and two months newer in 2011.

In order to predict potential future behavior, we contacted the drivers of 47 of the 113 underused vehicles, representing 42 percent of those vehicles. We asked each driver what they would do if the Motor Pool removed the vehicle assigned to them from the fleet. Their answers are contained in Graph 5, at right.

We recognize that this action may prompt the Motor Pool to increase its trip fleet size depending on decisions made by drivers and agency management. Driving a personally owned vehicle is not the only alternative to a permanently assigned vehicle. Other studies have shown that converting from permanently assigned vehicles to the use of personally owned vehicles results in less business-related travel. In other words, employees replace meetings with teleconferences, e-mail and other correspondence.

We also recognize that increased usage of personal vehicles could raise collective bargaining issues for agencies.

5. Prediction of future vehicle use



Cause

During the audit, Department officials told us that they did not believe the Motor Pool had the legal authority to require state agencies to return Motor Pool vehicles. At our request, the Department consulted its legal counsel and now believes that it does have this authority.

Recommendations

We recommend that the Motor Pool use its legal authority to require state agencies to return underused Motor Pool vehicles and reassign or sell them.

Our audit found that it is most cost-effective for state employees who travel less than 10,000 miles per year to drive their personal vehicles and then seek reimbursement from the state. This only applies to individuals who do not have an exception.

The State Auditor's Office is printing the Department of General Administration's and the Office of Financial Management's responses to each recommendation verbatim. Appendix D contains a joint letter from both agencies and Appendix E contains a table showing their action plan for putting our recommendations to use.

Effect of recommendations

Avoiding the purchase of 113 vehicles results in a cost savings of up to $2 million.

Overall response

The Department of General Administration (GA) and the Office of Financial Management (OFM) agree that state vehicles should be used efficiently and that underused vehicles should be either sold or reassigned. GA will either reassign or sell underused vehicles. GA and OFM will update the state travel and vehicle use policies to maximize efficiency of vehicle use.

General Administration Response

GA is taking steps to ensure the conditions that resulted in underused vehicles are not repeated in the future.

Action steps:

- We will reassign or sell underused vehicles, as needed.
- We are working with the agencies to determine why assigned vehicles have been underused and take steps to ensure underlying issues are addressed.
- We will work collaboratively with state agencies to increase accountability. Agency directors are responsible for the administration of their assigned vehicles. We will increase our assistance to agencies to ensure appropriate procedures and processes are in place to effectively manage state vehicles.

Timeframe: Work on all of these action steps is underway. The third step is ongoing. We expect to determine the cause for under-use by June 30, 2007.

Office of Financial Management response

This performance audit serves as a starting point for a careful review of state employee transportation policies. OFM will evaluate and update current policies related to permanently assigned vehicles. The report has raised some important questions about the standards that should be in the policy. For example:

- The current state policy uses 12,000 miles driven per year as criteria for having an assigned vehicle. Although the report states that the audit research supports this standard, the audit used 10,000 miles as the criteria for evaluating under-use.
- Our research of other state motor pools indicates that most states assign vehicles based on the nature of the assigned activity and frequency of use, along with number of miles driven. For example, an employee may not own a vehicle, may ride a bus or carpool to work, or may own a vehicle that is not suited to their job duties.
- Typically, state and local governments need to use a combination of public transportation and permanently assigned, day use, and privately owned vehicles to efficiently and safely deliver state services. Day use of a state owned vehicle is a good option, depending on the frequency of travel and the proximity to the motor pool rental fleet.

Action steps:

- We will update the policies related to permanently assigned vehicles. Prior to revising the policy, we need to consider related areas not within the scope of the audit, such as sustainability, cost-effectiveness, commute trip reduction efforts, driver safety and risk management. We will also consider whether 10,000 miles is the appropriate criteria for our Motor Pool to use, and how much of a role other factors like the nature of the assigned activity and frequency of use should play in the policies.
- We will research best practices and policies used by other states and local governments for employee transportation.
- We will work with GA and agency transportation officers to examine alternatives for how to make even more efficient and effective use of state vehicle resources in the future.
- As noted in the audit, this recommendation potentially will affect collective bargaining agreements. We will seek guidance from legal counsel and labor relations experts about the steps needed to implement requirements that employees use their own vehicles for state business.
- We will determine the extent to which the savings that result from returning underused vehicles to the motor pool will recur in the manner displayed in the auditor's report.

Timeframe: We plan to complete any necessary policy changes by October 1, 2007.

Criteria

See Appendix A.

Finding 2

This background information pertains to Findings 2 and 3.

The Motor Pool's daily vehicle rental rates do not cover its operating expenses.

Background

In 1998, the Motor Pool established a plan to begin purchasing vehicles with cash instead of borrowing money to purchase vehicles. It also revised its rate structure to include an amount to be set aside to replace vehicles in the future.

In 2003, the U.S. Department of Health and Human Services, the largest source of federal money to Washington government, conducted a review of the state's plan for allocating federal money. The Department's review indicated that the Motor Pool's charge for replacement costs was not allowed by federal regulation.

Approximately 16 percent of Motor Pool rentals are paid with federal funds received by state agencies. Consequently, the federal government directed the state to reimburse the federal government more than $1.8 million unless they could agree on another arrangement to repay the unallowed charges.

The Motor Pool agreed to reimburse the federal government using two methods. First, it returned $967,000 to Motor Pool customers. The federal customers spent the refunded money on allowable costs. The state customers put the money into their operations budgets. Secondly, the Motor Pool agreed to reduce daily rental rates by 5 percent to all customers beginning in July 2003. This effectively returned overcharged amounts to all federal and state customers.

In 2004, the Motor Pool decreased daily rental rates to 28 percent of what they were in 2002. In 2005, it raised rates to 59 percent of what they were in 2002. The purpose for the large reduction in excess of the federally required reduction was to provide agencies that rent vehicles some economic relief during a state budget crisis. This was not the first time the state used the Motor Pool funds to balance the state budget. In 1993, the Office of Financial Management transferred nearly $1 million that was earmarked to purchase vehicles and redirected it to other state programs.

6. Motor Pool's rate structure

The federal government does not allow government agencies to charge different rates for state and federal customers, so the Motor Pool reduced rates for all customers. This reduction not only eliminated replacement cost from the rates, but also was intended to lower the Motor Pool's cash reserves that was built up to purchase vehicles with cash. Federal regulations do not allow government agencies to accumulate more than 60 days' worth of working capital, which is an estimate of normal operating expenses for the next 60 days. During the audit period, that figure was $908,000. The Motor Pool had $6.9 million in reserves at the end of the audit period.

During this time, the Motor Pool's operating expenses were covered partially by the low daily rental rates and the use of its cash reserves. For example, if the unreduced daily rate was $13, the renting agency paid the reduced rate of $7 and the remaining $6 was taken from the Motor Pool's cash reserves (refer to Illustration 6 on page 14). The Motor Pool planned to increase rental rates each subsequent year as the cash reserves went down.

That was a short-term solution. In order to avoid future federal audit findings and to collect enough money to pay operating costs, the Motor Pool needed to modify its rate structure for the long-term.

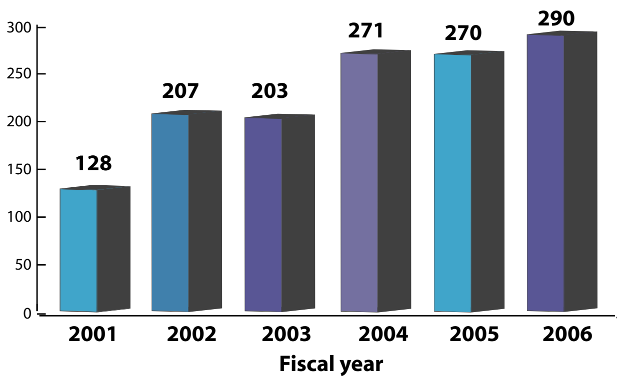
Although the federal government does not allow replacement costs to be charged, it does allow depreciation and interest payments on financed vehicles to be included in rental rates. Financing the vehicles allowed the Motor Pool to charge the full cost of acquiring vehicles to customers.

In 2005, the Motor Pool began borrowing money to replace vehicles. The State Treasurer offers state agencies a borrowing tool known as a Certificate of Participation. Interest paid on borrowed money using this tool is significantly lower than interest rates provided by traditional bank lenders. The comparison follows:

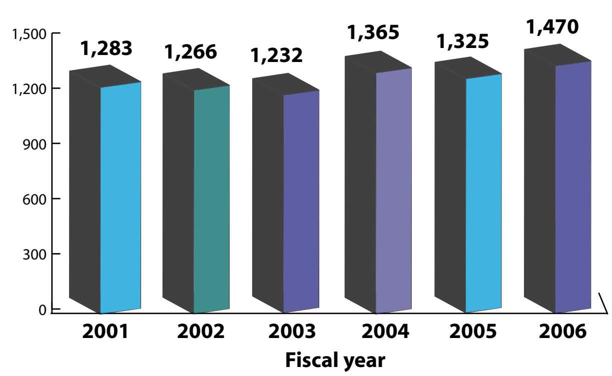
Certificate of Participation	4.3 percent, six-year loan
Washington State Employees Credit Union	6.64 percent to 13.74 percent (new vehicles only)
Bank of America	Starts at 6.74 percent — up to 60-month term (new vehicles only) Starts at 7.04 percent — 61- to 72-month term (new vehicles only)

The Motor Pool currently finances approximately 280 vehicles per year, each with a six-year loan. The Motor Pool spent $6,134,798 on new vehicles during the audit period and $304,484 in interest payments. It is estimated the Motor Pool's fleet will be fully financed by 2011.

7. Number of vehicles purchased



8. Number of vehicles in fleet



Finding 2

Condition

Daily vehicle rental rates do not generate enough revenue to pay the Motor Pool's expenses, resulting in the Motor Pool operating at a loss.

Cause

Department personnel stated that the Office of Financial Management directed the Department to lower daily rates to provide financial relief to state agencies in 2003. This relief was meant to balance the budget by providing money to spend on other programs. The Motor Pool also lowered rates to comply with an agreement with the federal government.

Recommendations:

The Motor Pool should raise its rates to cover the costs of operations.

The current rate structure leaves the Motor Pool operating at a loss each year. The losses are covered by the cash reserves.

Because the last two findings are closely related, action on the recommendations to remedy each one should be taken together.

Effect of recommendations

By increasing rates, the Motor Pool will generate enough revenue to cover costs. This increase does not violate federal regulations if the cash is used to purchase vehicles.

Overall response

We will consider the recommendations related to rates and financing in the upcoming rate and budget development cycle for the next biennium. Action steps for both this and the fourth recommendation are included together under Recommendation #4.

The Motor Pool continues to be fully supported by vehicle rental fees and does not receive general tax revenues or subsidies. Although it is true that **current** rates are below what is needed to cover **current** operating costs, this is part of a strategy developed by the federal government, OFM and GA to use cash reserves to cover operating expenses. Accounting rules allow planned operating losses to occur within short-term periods to meet business objectives.

We want to emphasize that the current strategy is primarily driven by conflicts between state and federal laws. The current operating loss is a temporary condition, and over time, the rates cover the costs of operation.

General Administration response

Rates will cover costs beginning July 2009 as presented in the Motor Pool's long-term business plan. The temporary discount in rental rates resulted from a change in business strategy, shifting from cash to debt financing to buy vehicles. GA and OFM management employed this strategy to address conflicting requirements between the federal government and state law.

The business decision to discount rates also created cash flow savings in customer agencies. Though these savings were not enough to balance the state budget during the state's economic recession, the lower rates helped maintain public service levels.

Because the Motor Pool is fully funded by fees paid by agencies, we have a concern that an immediate rate increase – without a corresponding increase in customer agency budgets – could mean agencies would need to shift spending away from their core public services to cover the increased Motor Pool rates. The next opportunity to add money to agency budgets for a rate increase is the 2008 supplemental budget.

Office of Financial Management response

In the past, Motor Pool rates were set so that a cash reserve could be built to pay for vehicle replacements. The size of the reserve was consistent with state law and the state's vehicle replacement funding strategy. However, we discovered that federal regulations conflict with state law: federal regulations do not permit the creation of a reserve of the size we needed. As a result, the federal government demanded repayment of the federal portion of what they determined to be an excess reserve amount. We reached an agreement with the federal government that the state could refund federal dollars by adopting a temporary reduction in rental rates. State agencies with federal programs would pay less for a specified time to make up the amount owed back to the federal government.

The Governmental Accounting, Auditing, and Financial Reporting (GAAFR) criteria used for the audit recognize the problems with a cash-based purchasing strategy. "This last approach [building up reserves so cash purchasing can be used], while suitable for managerial and financial reporting purposes, typically is not acceptable to grantors, who usually are unwilling to anticipate future funding needs." [Chapter 2, GAAFR].

This sentence follows the criteria cited in Appendix A of the audit report and clearly states the federal position.

The temporarily lower rates will be in place for another biennium. After that, the long-term business plan for the Motor Pool calls for rates to increase to a level that will match ongoing operating costs.

In addition to bringing the state into conformance with federal requirements, the temporary rate reduction helped reduce costs during the recession in the early 2000s. By reducing rates and using reserves to pay Motor Pool costs, agencies had more money available to deliver essential services. This approach was approved by the Legislature when they passed the agencies' operating budgets.

Auditor's concluding remarks

We consulted with the federal government and it agreed that our recommendation to raise rates does not violate federal regulations.

Criteria

See Appendix A.

The Motor Pool's current method of purchasing vehicles results in excess interest costs.

Background

See the background for Finding 2.

Condition

The Motor Pool is paying interest on every new vehicle it purchases. We found the Motor Pool's plan to finance the entire fleet is not the most cost-effective method of purchasing vehicles. Purchasing vehicles with cash is most economical method we considered, but that would require the state to include $12 million in its 2008 supplemental budget for Motor Pool to pay its current debt and to purchase vehicles with cash for the next 13 years.

Cause

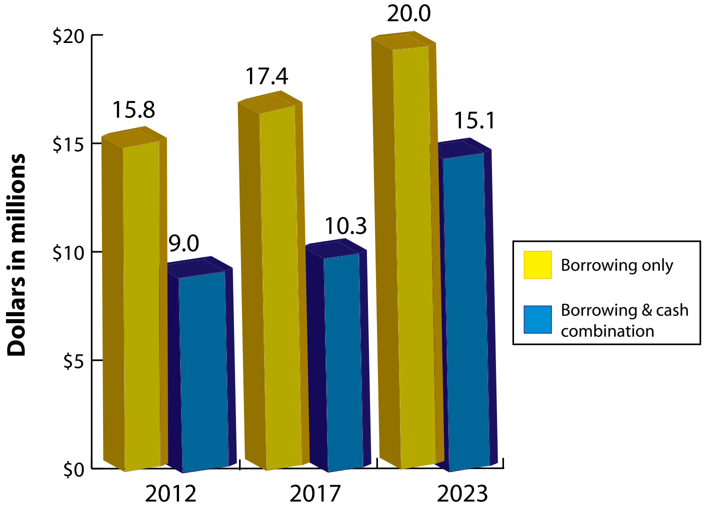
Department personnel indicated that the Office of Financial Management directed the Motor Pool to start borrowing money to purchase new vehicles. Financing vehicles would not result in federal findings. A more thorough explanation of this cause is available in Finding 2.

Recommendations

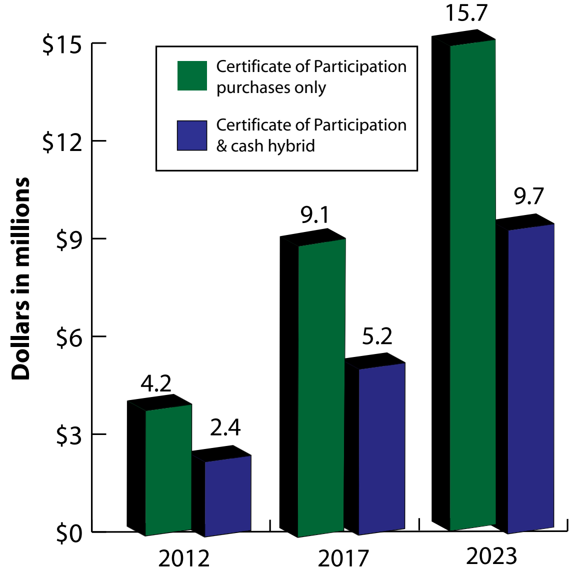
The Motor Pool should revise its method of funding new vehicles to reduce the amount of interest it pays on vehicle loans.

We recommend a method that incorporates a combination of cash purchases and financed purchases of vehicles. The Motor Pool to date has maintained a cash reserve; these funds could be used for cash payments on vehicles.

9. End-of-year loan balances (not cumulative)



10. Cumulative interest paid



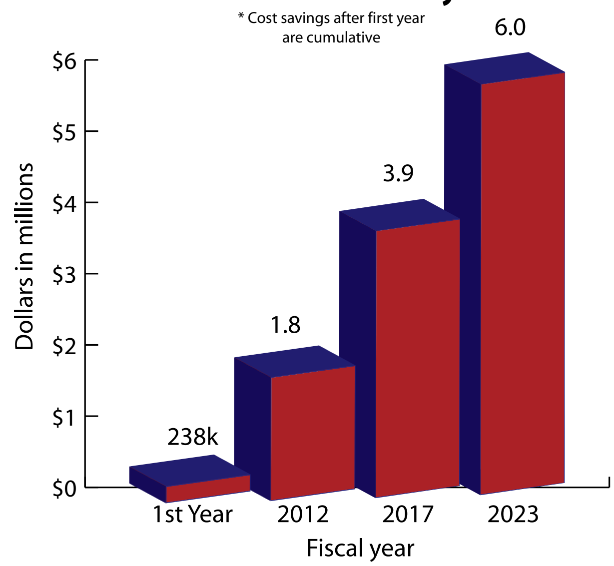
This method would require the Motor Pool to increase rental rates on July 1, 2007, to recover costs, including the interest paid on the vehicles that have already been purchased with borrowed money.

Starting July 1, 2008, the additional money collected from increased rental rates would allow the Motor Pool to purchase 30 percent of its new vehicles with cash and 70 percent with borrowed money. Under this model, some portion of the fleet would always be financed, but this method decreases the amount of borrowing needed and the amount of interest paid to lenders.

The Motor Pool's current method and our recommended fleet acquisition method were established according to the following stipulations:

- The Motor Pool's rental rates do not exceed rates in the private sector.
- The Motor Pool's rental rates cover the costs to operate the fleet.
- The Motor Pool charges the same rental rates regardless of whether they are paid with federal or state money.
- Rates do not include vehicle replacement costs.
- The Motor Pool's accumulated excess reserves never exceed its estimated operating expenses for the next 60 days at any given time.
- A cash balance.

11. Interest savings using cash-and-finance hybrid



Appendix C on page 28 shows the cumulative cost savings that could be achieved through fiscal year 2023 by applying our recommendations.

Effect of recommendations

The Motor Pool can save a substantial amount of money on interest costs if it establishes a vehicle purchasing method that incorporates a mix of cash purchases and borrowing. This method will also save a substantial amount of money for the state as a whole, with small net costs in the first two years offset by substantial savings within seven years.

Our method requires increased vehicle rental rates in the first two years:

Fiscal year	Cost savings	Increased rental fees paid to Motor Pool	Net cost to state
2008	$237,536	$363,494	$125,958
2009	$377,557	$356,443	$21,114

Rental rates decrease starting in 2010, resulting in cost savings to agencies:

Fiscal year	Annual cost savings
2010	$540,327
2017	$1.3 million
2023	$1.5 million

Overall response

We appreciate the suggestion of a new financial model. We have begun evaluating the potential results of its application, including costs of implementation and whether the model would accommodate the seasonal purchasing cycles. We will consider the recommendations related to rates and financing in the upcoming rate and budget development cycle in late 2007.

General Administration response

We partially agree with the finding. The current business model for buying vehicles does result in more interest costs than the proposed method: buying more vehicles with cash would reduce the amount of interest owed.

However, before making a significant and potentially costly change in financing, we want to consider all factors involved to ensure that a change would actually improve overall purchasing. We are incorporating a fuller evaluation of the suggested alternative financing into our normal rate-setting schedule.

The current financing plan also provides an opportunity to use cash for other important programs. The state uses financing, in part, for the same reason that families do: competing priorities. Some families could buy a car with cash, but that would mean the money would not be available for other pressing needs like groceries, college tuition, or savings. State government needs the same type of flexibility in using available cash for critical programs for citizens.

Action steps:

- We will evaluate in-depth the assumptions and analysis the auditor provided. We will evaluate the costs that would be incurred for a budget change affecting fiscal year 2008 rates.
- We will work with the Legislature to determine whether implementation of new rates is possible and a priority in their current budget deliberations.

Timeframe: We have already begun work on these action steps. Our work will coincide with the schedule for this legislative session.

Office of Financial Management response

OFM will incorporate the audit recommendations to the maximum extent appropriate in future budgets for Washington State. Prior to moving to any new model, OFM and GA need to determine whether the model yields the greatest benefit to the state. While the current approach to financing vehicle purchases does result in interest costs, it is common in both the public and private sector to pay for vehicles over time to spread the purchase cost over the useful life of the vehicle.

Additional benefits of the current model include:

- Compliance with federal requirements that charges match the period of time in which the vehicle is used.
- The ability to use the money not spent on a cash purchase on essential programs, including investments in programs services that may return more for the money in the long-term.
- The opportunity to take advantage of favorable interest rates by using the State

Treasurer's Certificate of Participation (COP) program. As shown in the audit report, the state's interest rates are low (4.3 percent) compared to other interest rates for new vehicles (6.64 percent - 13.74 percent).

We also want to understand some of the criteria used in support of the audit recommendation. For example, we are unclear where making purchases with cash is cited as a best practice or as a criterion for Motor Pool management. We will look for this practice in our research on other state motor pools. Also, Section 50.40.80 of the State Administrative and Accounting Manual is used to support the finding that the Motor Pool cannot have an operating loss. However, this section only applies to state agencies receiving federal funds directly, so it does not apply to the Motor Pool.

Action steps:

- OFM will work with GA to ensure a fuller understanding of the methodology used by the auditors in developing their new model. We will then evaluate the benefits and costs of using the suggested model or making other modifications. Specifically, we will:
    - Determine the size of the motor pool rate increases required to implement the auditor's recommendations and the resulting impact on affected agencies.
    - Determine how much of an up-front cost would be needed to move the Motor Pool to a hybrid cash purchase/debt financing model. (The audit report states $12 million would be needed to pay off current debt and purchase vehicles with cash for the next 13 years. We do not know how much would be needed for the hybrid model.)
    - Determine how inflation would affect the projected cost savings. (The cost savings do not appear to include inflation. For example, Appendix C shows static reimbursement costs to employees through 2023.)
- OFM will consult with federal officials to determine how a change in purchasing strategy would affect our agreement with the federal government to pay back funds.

Timeframe: We have begun work on these steps and plan to complete them by November 15, 2007. This timeframe allows us to incorporate the audit recommendations into a supplemental operating budget for the 2008 Legislature to consider.

Auditor's concluding remarks

We reviewed the agreement with the federal government and understand the Motor Pool's strategy to address conflicting requirements between the federal government and state law. Our proposed rental rates and hybrid financing plan do not result in any federal consequences. We consulted with the federal government and it agreed that our methods do not violate federal regulations.

The Office of Financial Management's response to the recommendations for Finding 3 indicates that a benefit of the current model includes taking advantage of the favorable interest rates by using Certificates of Participation. We want to clarify that our proposed model also includes taking advantage of these low interest rates.

As the Department's response pointed out, our cost savings figures do not include inflation in either additional costs or cost savings figures. Inflation was intentionally not applied to reimbursement costs to employees or to the future purchases of vehicles by the Motor Pool because they offset each other and do not substantially affect cost savings.

We would like to offer any assistance to the Office of Financial Management and the Department of General Administration as they work to ensure a fuller understanding of the methodology used by the Auditor.

Criteria

See Appendix A.

Criteria, Finding 1

We measured Motor Pool practices against the following criteria, which can include laws, policies, best practices, etc.

Revised Code of Washington 43.19.565 establishes the Motor Pool under the direction of the Department of General Administration. Section 1 states that the Motor Pool is empowered to:

"Provide suitable motor vehicle transportation services to any state agency on either a temporary or permanent basis upon requisition from a state agency and upon such demonstration of need as the department may require."

Revised Code of Washington 43.19.585 gives the Department of General Administration control and administration for the Motor Pool. It states:

"The director of general administration shall appoint a supervisor of motor transport, who shall have general charge and supervision of state motor pools and motor vehicle transportation services under departmental administration and control."

Revised Code of Washington 43.41.130 directs the Office of Financial Management to establish overall policies for motor vehicles. It states:

"The director of financial management, after consultation with other interested or affected state agencies, shall establish overall policies governing the acquisition, operation, management, maintenance, repair, and disposal of, all passenger motor vehicles owned or operated by any state agency."

The following policies were established in the **State Administrative and Accounting Manual** (SAAM), Section 12. **Section 12.20.10.5** states that every state agency having control of motor vehicles shall:

"Establish policies and procedures designed to operate these vehicles at the lowest effective cost per mile for the life of the vehicle."

Section 12.20.30.a states:

"At least one of the following conditions is to exist prior to each assignment of a motor vehicle on a permanent status to an individual or agency office:

1. The agency can demonstrate, or reasonably estimate:
   - For vehicles less than five years old or with less than 75,000 miles, the travel requirements average at least 1,000 miles per month.
   - For vehicles greater than five years old or with more than 75,000 miles, the travel requirement average at least 500 miles per month.

This mileage is not to include any travel by the assignee between home and duty station. Those permanently assigned motor vehicles that do not maintain these mileage minimums over a twelve-month period must be returned to the supporting motor pool.

2. Individuals requiring the vehicle are on 24-hour call and all of the following conditions exist:
   - A state-owned or leased motor vehicle is not available on a 24-hour trip dispatch basis.
   - It is not practical to provide for such transportation by the use of other agency vehicles.
   - The frequency of such travel on call is greater than would justify requiring the person to use such individual's own personal vehicle. Frequency of calls established under this paragraph is to be submitted by each agency to the Director of the Office of Financial Management.
3. A need exists for a specially equipped or special purpose motor vehicle which limits the use or which is essential to a particular agency, program, individual, or purpose.
4. The motor vehicle is used by a statewide elected official in the Executive Branch of state government.

The permanent assignment of a motor vehicle for any purpose other than those listed above is to be done only after justification for such assignment has been approved by the Director of the Office of Financial Management. The permanent assignment of a vehicle to an employee for use on official state business is not in itself sufficient justification to utilize that vehicle for travel between duty station and home."

Section 12.20.50.a states:

"The agency head, or authorized designee, may authorize the use of a privately owned motor vehicle in the conduct of official state business when it is more advantageous or economical to the state that a person travels by a privately owned vehicle rather than a common carrier or a state-owned or leased motor pool vehicle."

Section 10.10.10.a states:

"Agency heads ... are to ... ensure that any travel costs incurred are ... obtained at the most economical price and is necessary for state business."

A survey conducted by the **National Association of**

Appendix A

Fleet Administrators, Inc. supports the 10,000 mile vehicle usage standard.

The **Report on Fleet Management Operations for the State of South Carolina presented by Mercury Associates**, **Inc.** in May 2005 states:

> "While some of the miles driven by these low use vehicles will be replaced by an increase in mileage reimbursement or an increase in miles driven in other state vehicles, it is our experience that the majority of the miles will be eliminated."

Criteria, Findings 2 & 3

Revised Code of Washington 43.19.565 requires the Motor Pool to:

> "Establish an equitable schedule of rental and mileage charges to agencies for motor vehicle transportation services furnished which shall be designed to provide funds to cover replacement of vehicles, the purchase of additional vehicles, and to recover the actual total costs of motor pool operations including but not limited to vehicle operation expense, depreciation expense, overhead, and nonrecoverable collision to other damage to vehicles ..."

The federal government does not allow the Motor Pool to include a charge for vehicle replacement in its rental fee.

The Cost Principles for State, Local and Indian Tribal Governments (Circular A-87) is published by the Federal Office of Management and Budget. Attachment B, Part 11 allows the Motor Pool to charge depreciation on its existing vehicles. It states:

> "Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. ... The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved."

Attachment B, Part 23.b of Circular A-87 allows the Motor Pool to charge interest costs on its existing financed vehicles. It states:

> "Financing costs (including interest) paid or incurred on or after September 1, 1995 for ... equipment is allowable ..."

Attachment C, Part G of Circular A-87 dictates a limit on the Motor Pool's retained earnings of 60 days worth of operating expenses. It states:

> "Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases."
>
> "Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds $500,000."

The United States Department of Health and Human Services publishes a frequently asked questions and answers document about Circular A-87. This guide addresses the carry-forward of amounts not billed to the federal government to future years. It is directly related to the A-87 criteria listed above. The question is:

> "4-12 Attachment C, paragraph G.4 establishes four methods for adjusting internal service funds (billed central services) for profits or losses realized from operations. Alternative (b) allows credits to amounts charged to the individual programs. This method would only cover profits. If losses occur, why can't individual programs be debited?"

The answer is:

> "Effectively, alternative (b) is correcting billed costs in the current year, whereas alternative (c) is carrying forward the profit/loss into the next open fiscal period. The failure of the Circular to note how losses are to be treated in alternative (b) is an editing error. For consistency purposes, both alternative (b) and (c) cover profit and loss situations. However, only one method can be used in a given fiscal year."

The Government Finance Officers' Association publishes the **Governmental Accounting, Auditing, and Financial Reporting,** which is a premier source of practical guidance on all aspects of accounting, auditing, and financial reporting for state and local governments. Chapter 2 indicates that the amounts charged to other agencies by an internal service provider should be designed to recover costs. It states:

> "...internal service funds are specifically designed for goods or services that are provided on a cost-reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges. Full cost, for this purpose, includes the cost of capital assets used in providing goods or services to customers. If a government does not intend to recover the full cost of providing goods or services, including some measure of the cost of capital assets, the use of an internal service fund would not be appropriate. ... Another approach, consistent with the going-concern assumption, is to set charges for capital assets based on the replacement cost of those assets rather than their historical cost."

The **Governmental Accounting Standards Board's Statement 34** also states that fees charged to other agencies by internal service providers should be on a cost-reimbursement basis. Chapter 68 states:

> "Internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund."

Section 50.40.80 of the State Administrative and Accounting Manual states that state agencies receiving federal funds are to:

> "Draw federal funds at the earliest date allowed by the federal program or regulations."

Making purchases with cash results in cost savings from not paying interest on loans.

Executive Order 05-01

This was issued by Washington Governor Gary Locke in January 2005. The excerpt below pertains to this audit. The full text of the executive order is available at **http://www.governor.wa.gov/execorders/eoarchive/eo_05-01.pdf.**

EXECUTIVE ORDER 05-01

AND SUPERSEDING 04-06

ESTABLISHING SUSTAINABILITY AND EFFICIENCY GOALS FOR STATE OPERATIONS

NOW, THEREFORE, I, Gary Locke, Governor of the State of Washington, declare that state agencies shall adopt targets and take action to use sustainable practices. It is therefore ordered and directed that:

2. Agencies take all reasonable actions to achieve a target of a 20% reduction in petroleum use in the operation of state vehicles and privately owned vehicles used for state business by September 1, 2009.

A. Effective immediately, agencies shall freeze the purchase of any four-wheel drive sport utility vehicles and shall instead purchase two-wheel drive vehicles. Fourwheel drive vehicles that are rated to achieve over 30 miles per gallon and vehicles purchased for law enforcement or emergency response purposes are exempt from this prohibition. Agency directors must approve any other exemptions, consistent with criteria to be developed by GA in consultation with agency fleet managers.

B. Effective immediately, state agencies shall give priority to the purchase and use of hybrid gas/electric and other fuel efficient/low emission and new petroleum efficient technology vehicles), 1992 federal Energy Policy Act (EPACT) standards notwithstanding.

C. Effective immediately, agencies shall give priority to the replacement of pre-1996 light duty vehicles driven more than 2,000 miles per year, with the objective of replacing all such vehicles within three years.

D. GA shall collaborate with the purchasing agencies of the states of Oregon and California on specifications for future purchases of hybrid gas/electric and new petroleum efficient technology vehicles.

E. By September 1, 2009, state agencies shall replace standard diesel with a 20% biodiesel blend. As soon as practicable, agencies will begin using a minimum 5% biodiesel blend.

F. The Office of Financial Management (OFM) shall institute a fleet efficiency audit, to be completed by July 1, 2006. The goals of this audit are to evaluate current state practices and make recommendations regarding:

1. Appropriate vehicle utilization rate and size of agency fleets.
2. Appropriate age and mileage for vehicle turnover to maximize performance and minimize maintenance costs and environmental impact.
3. Cost/benefit of personal vehicle use and reimbursement policies.
4. Strategies for improving the overall efficiency of acquiring, using, and maintaining all vehicles in the state fleet.
5. Cost effectiveness of car sharing services.
6. Increasing opportunities for employee ride-sharing on business travel.

G. For purposes of this Executive Order, a "fuel efficient/low emission" vehicle is defined as one that achieves more than 30 miles per gallon in fuel efficiency and meets the federal Environmental Protection Agency Tier 2 emission standards. A "light duty" vehicle is considered to be one that is under 8,500 pounds gross vehicle weight.

3. Agencies shall employ professional vehicle fleet management and planning practices

A. Those agencies with over 100 light duty vehicles and professional fleet management (defined as having staff dedicated to managing the fleet assets and a fleet management information system):

- Shall submit a Fleet Management Plan to the OFM Sustainability Coordinator and the GA Fleet Manager by September 1, 2005 as part of the Sustainability Plan required by Executive Order 02-03. Subsequent Fleet Management Plans shall be included in the Sustainability Plans to be completed by September 1 each even-numbered year thereafter. Plans must include:
  1. A vehicle replacement plan with identified funding.
  2. Accelerated replacement schedules for pre-1996 light duty vehicles driven more than 2,000 miles per year, with an objective of replacing all such vehicles within 3 (three) years.
  3. Annual goals for the percentage of fuel efficient/low emission vehicles in agency fleets.
- Shall report annually on their progress in implementing their Fleet Management Plan. The first progress report shall be submitted to the OFM Sustainability Coordinator and the GA Fleet Manager by October 15, 2006. Subsequent progress reports shall be submitted each October 15. Each report must include:
  1. Measures of vehicle maintenance and repairs, annual petroleum use, vehicle miles traveled on state business, and the number and type of state vehicles owned (by model year).
  2. Number of exception purchases of four-wheel-drive sport utility vehicles made under Section 2 of this Executive Order.
- In lieu of these reporting requirements, affected agencies may contract with GA for the management of their vehicles while still retaining ownership.

B. Those agencies with fewer than 100 light duty vehicles or without professional fleet management shall, by September 1, 2005:

- Arrange to transfer agency vehicles to the GA Motor Pool, or
- Contract with GA for management of their vehicles while still retaining ownership.

4. Agencies shall establish clear direction on rental vehicle use.

As part of its responsibilities for providing a limited number of light duty vehicles for daily rental use, by March 1, 2005, GA shall establish policy that requires state employees, if they will be a sole vehicle occupant, to use a fuel efficient/low emission vehicle, if available.

Under the statewide contract for car rentals from commercial vendors:

- Effective immediately, if they will be the sole vehicle occupant, state employees must request and use a fuel efficient/low emission vehicle, if available.
- In negotiating a new car rental contract at the expiration of the current one, the State of Washington, in collaboration with other states, shall seek inclusion of a requirement that the car rental vendor offer state employees a fuel efficient/low emission vehicle first, if available.

Appendix C

The following chart shows the cumulative cost savings that would result from applying our recommendations.

Fiscal Year	Action	Annual *(Cost)* or Cost Savings	Cumulative Cost Savings
2008	Avoid purchase of 113 vehicles	$1,975,648	
2008	Reimburse employees	$*(388,000)*	
2008	Increased rental fees	$*(363,504)*	
2008	Interest savings	$237,536	**$1,461,680**
2009	Reimburse employees	$*(388,000)*	
2009	Increased rental fees	$*(356,443)*	
2009	Interest savings	$377,557	**$1,094,794**
2010	Reimburse employees	$*(388,000)*	
2010	Decreased rental fees	$136,725	
2010	Interest savings	$403,602	**$1,247,121**
2011	Reimburse employees	$*(388,000)*	
2011	Decreased rental fees	$144,131	
2011	Interest savings	$405,410	**$1,408,662**
2012	Reimburse employees	$*(388,000)*	
2012	Decreased rental fees	$870,453	
2012	Interest savings	$404,128	**$2,295,243**
2013	Reimburse employees	$*(388,000)*	
2013	Decreased rental fees	$878,217	
2013	Interest savings	$408,552	**$3,194,012**
2014	Avoid purchase of 107 vehicles	$1,865,984	
2014	Reimburse employees	$*(388,000)*	
2014	Decreased rental fees	$581,491	
2014	Interest savings	$393,345	**$5,646,832**
2015	Avoid purchase of 6 trucks	$109,664	
2015	Reimburse employees	$*(388,000)*	
2015	Decreased rental fees	$589,633	
2015	Interest savings	$391,635	**$6,349,764**

Fiscal Year	**Action**	**Annual *(Cost)* or Cost Savings**	**Cumulative Cost Savings**
2016	Reimburse employees	$*(388,000)*	
2016	Decreased rental fees	$1,316,710	
2016	Interest savings	$404,793	**$7,683,267**
2017	Reimburse employees	$*(388,000)*	
2017	Decreased rental fees	$1,325,248	
2017	Interest savings	$416,404	**$9,036,919**
2018	Reimburse employees	$*(388,000)*	
2018	Decreased rental fees	$1,361,336	
2018	Interest savings	$418,300	**$10,428,555**
2019	Reimburse employees	$*(388,000)*	
2019	Decreased rental fees	$1,370,288	
2019	Interest savings	$400,436	**$11,811,279**
2020	Avoid purchase of 107 vehicles	$1,865,984	
2020	Reimburse employees	$*(388,000)*	
2020	Decreased rental fees	$2,098,196	
2020	Interest savings	$387,885	**$15,775,344**
2021	Reimburse employees	$*(388,000)*	
2021	Decreased rental fees	$2,107,583	
2021	Interest savings	$354,944	**$17,849,871**
2022	Avoid purchase of 6 trucks	$109,664	
2022	Reimburse employees	$*(388,000)*	
2022	Decreased rental fees	$1,785,171	
2022	Interest savings	$329,182	**$19,685,888**
2023	Reimburse employees	$*(388,000)*	
2023	Decreased rental fees	$1,462,989	
2023	Interest savings	$304,276	**$21,065,153**

Appendix D

STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT
Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

February 20, 2007

The Honorable Brian Sonntag
State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Mr. Sonntag:

Thank you for the opportunity to provide this joint response for the performance audit of the General Administration Motor Pool. Like Governor Gregoire, we strongly support the use of performance audits as an important tool to improve state government.

We have worked closely with the Auditor's Office staff throughout the process, and we are taking the suggestions for improvement very seriously. In addition to the suggestions, we were heartened by the Auditors' conclusions that the state Motor Pool provides a valuable service to state agencies and that renting vehicles from the Motor Pool is an economically sound practice.

We have attached our joint response to the audit findings and recommendations. Action in support of the recommendations is already underway by both of our offices. As part of our coordinated response, we have included a table outlining specific action steps to be taken and by when. Progress on this action plan will also be tracked in the Governor's Government Management Accountability and Performance (GMAP) forums.

Again, we appreciate the efforts of your office. We look forward to working together to increase state government openness, efficiency, and accountability.

Sincerely,

Linda Villegas Bremer

Linda Villegas Bremer, Director
Department of General Administration

V.A.M.

Victor A. Moore, Director
Office of Financial Management

Enclosure

cc: Tom Fitzsimmons, Chief of Staff, Governor's Office
Joyce Turner, Deputy Chief of Staff, Governor's Office
Larisa Benson, Director, GMAP

Appendix E

The following table was included in the Office of Financial Management and Department of General Administration's joint response to the findings and recommendations in this report.

ACTION PLAN FOR ADDRESSING AUDIT FINDINGS

Related to Recommendation	Action Step*	By Whom	By When
1, 2	1. Sell or reassign underused vehicles.	GA	August 31, 2007
1,2	2. Determine cause for under use and address.	GA	June 30, 2007
1,2	3. Assist agencies with procedures and processes	GA	February 2007 - ongoing
1,2	4. Update state policies.	OFM	October 1, 2007
3,4	5. Obtain guidance on impacts to collective bargaining agreements.	OFM	Within policy development process, to be completed by 10/1/07
3,4	6. Complete evaluation of costs to change FY2008 rates.	GA	At discretion of the Legislature
3,4	7. Work with Legislature regarding implementation of new rates.	GA	At discretion of the Legislature
3,4	8. Evaluate benefits and costs of using the suggested hybrid-financing model.	OFM/GA	November 15, 2007
3,4	9. Consult with federal officials on repayment of charges.	OFM/GA	November 15, 2007
*More detail on the action steps is contained in the written audit response.			

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