

NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

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STATE COMPTROLLER**



**NEW YORK CITY DEPARTMENT OF CITYWIDE
ADMINISTRATIVE SERVICES OFFICE OF
FLEET ADMINISTRATION**

***MONITORING OF THE VEHICLE
MAINTENANCE AND REPAIR PROGRAM***

2001-N-3

**DIVISION OF MANAGEMENT AUDIT AND
STATE FINANCIAL SERVICES**

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**H. Carl McCall
STATE COMPTROLLER**

Report 2001-N-3

Ms. Martha K. Hirst
Commissioner
New York City Department of Citywide
Administrative Services
Office of Fleet Administration
1 Centre Street, 17th Floor
New York, NY 10007

Dear Ms. Hirst:

The following is our audit report on the New York City Department of Citywide Administrative Services' Office of Fleet Administration monitoring of the vehicle maintenance and repair program.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III of the General Municipal Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller
Division of Management Audit
and State Financial Services*

July 11, 2002

Division of Management Audit and State Financial Services

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EXECUTIVE SUMMARY

NEW YORK CITY DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES - OFFICE OF FLEET ADMINISTRATION

MONITORING OF THE VEHICLE MAINTENANCE AND REPAIR PROGRAM

SCOPE OF AUDIT

The New York City (City) Department of Citywide Administrative Services (DCAS) was created in 1996 to consolidate and streamline the central administrative functions of the former Departments of Personnel and General Services. Organized into six divisions, DCAS provides City agencies with various support services. For example, the Office of Fleet Administration (OFA), within DCAS' Division of Municipal Supply Services, is responsible for managing the City's vehicle requisition and purchase process and overseeing fleet maintenance for 37 City agencies.

In 1994, in an effort to save money, the City began using GE Capital Fleet Services (GECFS), a contractor selected by the New York State (State) Office of General Services (OGS), to perform repair and maintenance services, formerly performed by City employees. This contract permitted municipalities, such as the City of New York, to have their vehicle fleets serviced within the GEFCS network of independent repair facilities. A joint audit by the Offices of the State and City Comptrollers (Report No. 96-S-76), issued September 29, 1998, reported on weaknesses in GECFS' performance. The audit revealed that DCAS did not monitor this contractor sufficiently.

On April 1, 1998, DCAS began using the OGS contract with PHH Vehicles Management Services (PHH) to perform the maintenance and repair services previously performed by GEFCS. PHH's rates for fleet management services and reports are \$3.95 per passenger vehicle per month, and \$35 per month for each vehicle with a capacity of more than one ton. City agencies can choose to use either PHH's services or those of another firm. For the two-year period of April 1, 1999 to March 31, 2001, PHH billings to the City totaled \$3.3 million.

In its role as monitor of the contractor's performance, DCAS receives input, through OFA, from City agencies that utilize PHH services. We did not examine OGS' administration of this contract. Our audit addressed the following

questions about OFA's monitoring of the contractor for the period April 1, 1999 through March 31, 2001:

- Has OFA established adequate controls and procedures for monitoring repairs and maintenance work?
- Has OFA complied effectively with its responsibilities regarding vehicle repair and maintenance as specified in its policies and procedures?
- Does OFA effectively monitor the quality and necessity of repair and maintenance work being performed by the facilities in PHH's network?

AUDIT OBSERVATIONS AND CONCLUSIONS

Overall, we found that OFA has implemented reasonable controls for monitoring repair and maintenance work. However, OFA needs to improve its monitoring because it did not always inspect repairs costing more than \$550 each, as required by its policies. Nine vehicles listed on PHH's database were not registered to the City, and agencies continued to use nine repair facilities that had been cited by OFA with the admonition, "Do Not Use." We also found one instance in which repair work might have been covered by warranty but was not claimed, and other instances in which preventive maintenance and State inspections for several vehicles were not done in a timely manner. OFA officials advised that the repairs for more than \$550 that were not inspected occurred because they were not notified of the repairs. As for the use of repair facilities that were on the "Do Not Use" list, OFA officials advised that this was partially due to agencies that went directly to the vendors and did not contact PHH. In addition, we noted that the list of vendors that should not be used was not circulated to the agencies in a timely manner.

COMMENTS OF DCAS OFFICIALS

A draft copy of this report was provided to DCAS officials for their review and comment. In addition, we discussed these matters at an exit conference. Their comments have been considered in preparing this final report and are included as Appendix B. DCAS officials indicated the audit results support that they have established good controls for the phases of the program for which they are responsible. They added that some of the audit conclusions relate to activities the agencies administer. We recognize that certain phases of the program rests with the agencies; however, we do not agree with DCAS officials that the customer agencies are totally responsible for taking corrective action. DCAS should, at least make an effort to work with the agencies to improve controls over the vehicle repairs and maintenance. DCAS agreed with most of our recommendations and has taken action to implement them.

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INTRODUCTION

Background

The New York City (City) Department of Citywide Administrative Services (DCAS) was created in 1996 to consolidate and streamline the central administrative functions of the former Departments of Personnel and General Services. Organized into six divisions, DCAS provides City agencies with various support services. For example, the Office of Fleet Administration (OFA), within DCAS' Division of Municipal Supply Services, is responsible for managing the City's vehicle requisition and purchase process and overseeing fleet maintenance for about 2,000 vehicles assigned to 37 City agencies, including elected officials.

In 1994, in an effort to save money, the City began using GE Capital Fleet Services (GECFS) to perform repair and maintenance services for its fleet of approximately 857 vehicles, a function previously performed by City employees. The contractor was selected by the New York State (State) Office of General Services (OGS). This contract permitted municipalities, such as the City of New York, to have their vehicle fleets serviced within the GEFCS network of independent repair facilities. A joint audit by the Offices of the State and City Comptrollers (Report No. 96-S-76), issued September 29, 1998 reported on weaknesses in GECFS' performance. The audit revealed that DCAS did not monitor this contractor sufficiently to prevent the City from being billed for unnecessary and duplicate repairs. When the contract with GECFS ended, OGS contracted with PHH Vehicle Management Services (PHH). (In responding to our draft report, DCAS officials stated that the City claimed the prior audit was flawed and that DCAS controls were nearly the same as they are today. We disagree. First, we stand by the findings of the State and City Comptrollers. Their joint report was instrumental in removing GECFS in favor of PHH. Second, DCAS controls have improved since the prior audit.)

On April 1, 1998, DCAS began using the OGS contract with PHH, which utilizes 205 vendors in the New York City area, to perform the maintenance and repair services previously performed by GEFCS. PHH's rates for fleet management

services and reports are \$3.95 per passenger vehicle per month, and \$35 per month for each vehicle with a capacity of more than one ton. City agencies can choose to use either PHH's services or those of another firm. For the two-year period April 1, 1999 to March 31, 2001, PHH billings to the City totaled \$3.3 million.

To administer this contract and others, OFA employs a staff of 13, with 3 employees devoted entirely to inspections. Aided by input from City agencies that use the same services, OFA monitors the contractor's performance. Each agency that has elected to participate in the vehicle repair and maintenance program is responsible for managing its own fleet. However, OFA provides overall assistance and coordination between each participating agency and PHH. This includes pre-inspections – examination of vehicles before repairs are made – to determine what repairs are needed, and pre-approvals – approval of the cost estimate before the work is done – that qualify a repair for PHH service. The following documents outline OFA responsibilities:

- Procedure #98-2 provides the policy statement, cites comprehensive guidelines, and defines the responsibilities of employees administering the PHH contract. Vehicle users must contact PHH to obtain a Request for Authorization Order for repairs and referral to the subcontractor. In addition, all repairs costing \$550 or more require OFA inspection and authorization.
- Procedure #98-3 defines the responsibilities of the Transportation Coordinator at each agency, which include verification that all agency drivers are properly licensed and have received the program orientation. Preventive maintenance is done in accordance with the manufacturer's recommended maintenance interval.
- Procedure #98-4 defines the driver's responsibilities, which include performing basic maintenance on vehicles, telephoning PHH or OFA before taking the vehicle to a repair shop, preparing downtime reports, etc.

OFA also provides an orientation program for Agency Transportation Coordinators to inform them about the policies and procedures and to walk them through the process. OFA's

repair and maintenance program requires that all participating vehicles be entered into this system. All repair and maintenance work costing more than \$550 is subject to OFA inspection. Each repair is monitored and is subject to approval by the respective agency. OFA inspectors are responsible for reviewing the reasonableness of subcontractor bills for repairs that were not pre-inspected. OFA is also responsible for verifying that all authorizations were billed at the proper amount.

All vehicles participating in the program are entered into PHH's Maintenance Management Program database (PHH database), which can be accessed through a web site maintained by PHH. When an agency calls in a vehicle repair to PHH and receives proper authorization, PHH personnel record the repair on its web site. This enables OFA to know which repairs are occurring shortly after PHH does. PHH also maintains a repair and billing history for each vehicle that the agencies can access on its web site.

Audit Scope, Objectives, and Methodology

We audited OFA's oversight of the vehicle repair and maintenance program for the period April 1, 1999 to March 31, 2001. The objectives of our performance audit were to determine whether OFA has established adequate controls and procedures for monitoring vehicular repairs and maintenance work; has complied with its responsibilities regarding vehicle repair and maintenance as specified in its policies and procedures; and has effectively monitored the quality and necessity of repair and maintenance work done by the repair facilities in PHH's network.

To accomplish our objectives, we reviewed laws, policies, and procedures; interviewed management and staff; reviewed accounting records; observed operations; and tested transactions. Specifically, we reconciled OFA inspections to PHH repairs costing more than \$550. Using the State Department of Motor Vehicles database, we checked whether participating vehicles were City-owned and -registered. We also determined whether OFA found the current vendors to be unacceptable to participate in the program.

In addition, we visited ten City agencies to confirm the data reported about their vehicles, and to ascertain their level of satisfaction with the program. We also contacted officials of the

NYS Office of General Services and three other State agencies to determine their satisfaction with the program. Most officials of the City agencies we visited were pleased with the program. There were some State agencies that expressed dissatisfaction with the program. We requested information on vehicular downtime to develop statistics for participating agencies. However, we were told that agencies sporadically reported their downtime and, as a result, the information available was not sufficient to complete this analysis.

As is our practice, we notify officials at the outset of each audit that we will be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In the representation letter, agency officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. Agency officials further affirm that either the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors.

However, DCAS officials informed us that, in accordance with the City's policy for Mayoral agencies, they would not provide representation letters in connection with our audits. As a result, we lack assurance from DCAS officials that all relevant information was provided to us during our audit. We consider this refusal to provide a representation letter to be a scope limitation on our audit. Therefore, readers of this report should consider the potential effect of this scope limitation on the findings and conclusions presented in this report.

Except as noted, we conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, these standards require that we understand OFA's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, the evidence supporting transactions

recorded in the accounting and operating records and applying other auditing procedures, as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We used a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an “exception basis.” This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of DCAS Officials to Audit

A draft copy of this report was provided to DCAS officials for their review and comment. In addition, we discussed these matters at an exit conference. Their comments have been considered in preparing this final report, and are included as Appendix B. Where appropriate, we have made changes to reflect additional information provided by DCAS. In addition, the State Comptroller’s Notes to DCAS’ response are included as Appendix C.

DCAS officials indicated the audit results support that they have established good controls for the phases of the program they are responsible for. They added that some of the weaknesses have to be corrected by the agencies that participate in the program. They agreed with most of our recommendation and have taken action to implement them.

Within 90 days after final release of this report, we request that the Commissioner of the Department of Citywide Administrative Services report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reason therefor.

MONITORING OF CONTRACTOR PERFORMANCE

OFA officials enroll vehicles in or take them off the repair and maintenance program at the request of the agency to which the vehicles are assigned. Some agencies such as the Police and Fire Departments do not take advantage of PHH services, often because they have their own maintenance operation. OFA faxes information about the vehicles to PHH personnel, who enter the vehicle identification number (VIN) and license plate number into the PHH database.

The fleet maintenance program provides for three independent checks. First, the Transportation Coordinator at each agency reviews and evaluates all repair work and the related costs. Second, PHH telephone operators who are knowledgeable about automotive maintenance, evaluate the appropriateness of the proposed repair work. Finally, OFA provides inspections for repairs that cost more than \$550, as well as some valued at more than \$100, and is also able to review all other repairs, selecting agencies at random, via the PHH web site. Once an agency is selected, all repairs falling in the review category are pre-inspected. OFA also identifies PHH vendors for the "Do Not Use" list and initiates their removal from the approved list.

At the end of each month, OFA personnel review PHH billings and distribute specific charges to each agency, enabling agency officials to review the data and confirm that the charges are proper and apply only to work that was pre-approved under the inspection program.

Inspections

The OFA director monitors all PHH bills for evidence of split-ordering. Agency personnel review charges for accuracy, cost reasonability, and authorizations, where applicable. OFA reported it inspected repairs representing \$1.3 million (39 percent) of the total PHH repair expense of \$3.3 million reported for the two-years ended March 31, 2001. Under this program, OFA oversight is limited to the PHH authorization process; pre-

inspection, and pre-approval of repairs costing more than \$550; limited inspections for repairs costing more than \$100 and less than \$550; and bill-processing. Agencies manage and control their fleets independently. OFA officials do not regularly visit these agencies or evaluate their policies or procedures.

OFA must inspect all vendors' estimates for maintenance repairs costing \$550 or more and perform pre-inspections at any given time on vehicles at as many as five agencies, randomly selected, for work performed at a cost of less than \$550 and more than \$100. Inspectors perform and document these inspections, using the Mitchell Guide, a pricing book for automobile parts, to compare the vendor estimate with industry standards, and preparing a report. If the vendor estimate is higher than the inspector's, OFA negotiates with the vendor or moves the vehicle to a different repair shop. Inspectors also review vendors' bills for repairs on non-inspected vehicles to identify inconsistencies within invoices. OFA and PHH verify that the repairs have been authorized appropriately.

We tested compliance with DCAS monitoring and inspection procedures, including OFA's authorization of all repairs costing more than \$550, to determine their effectiveness. We matched these repairs with OFA's Track 99 report to verify that all vehicles were inspected and approved.

We obtained a download of a PHH file that contained 1,041 repairs costing more than \$550 that had been performed during our audit period, and compared it with OFA's Track 99 report. We found that six of these repairs, with a total cost of \$3,879, were not inspected because PHH did not notify OFA of the impending repair. During this review, we also found 18 instances where the actual repair costs exceeded the OFA authorized amounts by more than the allowed \$50 differential.

Authorized Participating Vehicles

Only City-registered vehicles are eligible to participate in the repair and maintenance program. At an agency's request, OFA either enrolls the vehicles or removes them from the program by faxing the VIN and license plate number to PHH, where the data is entered into the PHH database.

We sought to verify that 2,063 City vehicles were registered to City agencies, including, according to OFA records, 1,986 actively-participating downloaded from PHH's web site plus 77 vehicles deleted from the inventory during the three months ended March 31, 2001. Although we were able to use the database at the State Department of Motor Vehicles to confirm that most of the 2,063 vehicles were City-owned/registered, we were unable to confirm nine vehicles as City registered. (In response to our draft report, DCAS officials claim that seven of the nine instances were the result of typographical errors when entering the vehicles' VIN.) Four of the 2,063 vehicles were sold but remained on the PHH-authorized list. Subsequently, we were advised that another two vehicles had been sold after our audit period, but were not removed from the list. OFA officials agree that these vehicles should have been removed. We did not find that repairs were made to the vehicles after they were removed from the list.

OFA officials told us they generally confirm the vehicle inventory with agencies twice a year. They said they distribute a list of vehicles to each agency for confirmation, and rely on the agencies to notify them if they disagree with entries on the list. We believe better control could be achieved if the agencies submit their vehicle inventory to OFA instead, because some of the agencies may not report differences. Receiving the information from each agency would also help OFA do a better job of reconciling its list with those of the agencies.

Recommendations

1. Perform periodic reconciliation of data in the PHH database with that in the Track 99 inspections report to verify that all repairs costing more than \$550 are being inspected as required by OFA procedures.
2. Periodically, download a list of authorized vehicles from the PHH database and match the result against inventory records received from the agencies.

(In response to our draft report, DCAS officials claimed it is not cost- effective to perform this match since it costs the City only \$3.90 per month to list a vehicle on PHH's database.)

Recommendations (Cont'd)

Auditors' Comments: While this is true, the cost was minimal only because repairs were not made to these vehicles after the City sold them. However, without any review, it is possible that costly repairs could have been made and charged to the contract and a different outcome would have emerged.

3. Follow up on the nine vehicles that were not confirmed in this audit as New York City-owned/registered.

(In response to our draft report, DCAS officials indicated seven of the nine vehicles could not be matched due to typographical errors in the VIN.)

Auditors' Comment: In our view, DCAS' response does not go far enough because it does not address why an incorrect VIN was not detected by the PHH system or what action was taken to preclude this from recurring.

APPROVED VENDORS

OFA inspectors monitor the quality of the vendors' work and report instances of potential contract violations. OFA, which utilizes half of PHH's 205 vendors in the New York City area, may stop using the vendor if the quality of work is deemed poor or questionable, based on overcharging, complaints, etc. If OFA is dissatisfied with a vendor, it asks PHH to place the vendor on a "Do Not Use" list. However, it does not maintain a database of these vendors and agencies participating in the fleet maintenance program are not routinely notified of the classification. Upon our request, OFA officials prepared a list of all 49 vendors they have categorized as "Do Not Use."

We sought to determine whether any of these vendors had been utilized after they were placed on the list. We found that nine of them continued to be used – for a total of 36 times – and that they were paid \$8,193 after being placed on the list. Despite the fact that the continued use of the listed vendors could result in poor workmanship and greater cost, it appears that the same agencies continued to utilize their services. OFA officials explained to us that this occurred because agencies have approached vendors directly before contacting PHH. However, we note that in five of the 36, the repair costs exceeded OFA's \$550 pre-inspection threshold. The total amount for the five repairs was \$3,814. If the agencies had obtained pre-approval, they may have been made aware that certain vendors were not authorized. This condition may have resulted from poor communication among OFA, PHH, and City agencies as the "Do Not Use" vendor listing is not distributed regularly. Most agencies become aware of the vendors on this list through dissemination of OFA's newsletter. However, as of July 2001, the most recent such newsletter was dated November 2000. (DCAS officials stated in response to the draft report that our numbers – nine vendors, used 36 times, for a total of \$8,193 – were too high. However, they made a similar response to our preliminary audit finding and provided supporting documentation at that time. We reviewed their documentation and revised our totals. As a result, this report accurately reflects what occurred.)

Recommendation

4. Maintain a database of “Do Not Use” vendors and provide it to agencies regularly. Remind agencies to obtain a referral to an appropriate vendor from PHH.

OTHER MATTERS

Each agency participating in the program is responsible for managing its own fleet. To maintain an effective fleet management program and keep costs down, all repairs covered by warranty must be pursued. In addition, vehicles should be subject to timely inspection and preventive maintenance that will provide for efficient vehicle usage and a longer life. OFA provides overall assistance and coordination between each participating agency and PHH, as well as general oversight for warranties and reminds agencies to do preventive maintenance. However, OFA has limited power over the manner in which the agencies manage their fleet. For example, DCAS cannot force an agency to take vehicles in for preventive maintenance. We examined two distinct samples of 50 vehicles in the program, checking for possible warranty coverage, timeliness of annual State inspections, and preventive maintenance.

Warranty Coverage

There is a significant risk that unnecessary cost will be incurred for vehicle repairs if warranties are not pursued. DCAS uses the manufacturer's standard, bumper-to-bumper, 3 years/36,000-miles criteria for warranty coverage. Repairs covered by the warranty are supposed to be performed by the dealership, if a private garage makes such repairs, the dealership is billed directly for the cost. As a result, warranty work is not reflected on the PHH system. Proposed repairs are subject to three levels of pre-inspection checks (City agency, PHH and OFA) to make sure that repairs covered by warranties are pursued. The agencies track warranty work and prepare reports on downtime. Although each agency paying for repairs has the primary responsibility for seeing that none of the work performed was covered under warranty, both PHH and OFA (when the repair costs more than \$550) have an opportunity to review the proposed work and determine whether it might be covered by warranty. Before authorizing repairs, OFA can download the vehicle's maintenance history to check for warranty coverage.

We randomly selected 50 of 758 vehicles to determine whether warranty coverage should have been pursued. We identified ten repairs costing a total of \$4,572 that could have been covered under warranty. However, the type of work performed could not be determined for six of the ten repairs because the major cost has been coded to the PHH description "Miscellaneous." Although the actual invoice might break down this category, the PHH repair history does not provide such information. In addition, OFA files may not contain the invoice that went directly to the agency. Use of the "Miscellaneous" field in the descriptive category should be minimized and the PHH history screen should be revised to provide more details and fuller explanations for all repairs over a specified amount. After DCAS officials explained the repairs we found under this code, we determined that one of them, costing \$248, should have been pursued under warranty.

Preventive Maintenance

The establishment of an effective program of preventive maintenance (PM) is essential if fleet operations are to be made more efficient. Such a program can reduce vehicular downtime due to unexpected breakdowns; it can also prolong a vehicle's useful life. In addition, it can reduce employee downtime that occurs when vehicular breakdowns prevent employees from carrying out their duties. Recently, PHH began providing an on-line service that lists the vehicles that have received PM, making it possible for OFA and agency personnel to determine which ones had such care. Preventive maintenance, annual State inspections, and warranties are the responsibilities of the agencies, but OFA helps agency personnel by alerting them to the vehicles' maintenance needs. OFA's guidelines recommend preventive maintenance every 7,500 miles or six months.

To determine whether preventive maintenance is being performed timely and State inspections are being done annually, we examined a random sample of 50 of 1,087 vehicles that were for the model years prior to 1998. Applying the criteria of 7,500 miles or six months to our two-year scope period, we found the following:

- The maintenance of 20 of the 50 vehicles did not meet the standard minimum of 4 preventive maintenance

services that should have been performed on each vehicle during the 24-month period.

- For five vehicles, 5 preventive maintenance services were performed after the vehicle had been driven more than 7,500 miles since the prior maintenance.

Vehicles should also receive an annual New York State inspection. Thus, the vehicles in our sample should have received two State inspections during our audit period of April 1, 1999 through March 31, 2001. However, we found that:

- Ten of the vehicles were not inspected twice, as required.
- Five of the vehicles were inspected 400 days after the previous inspection.
- One agency was charged for two inspections on one vehicle on the same day.

Recommendation

5. Continue to impress upon the Transportation Coordinators the importance of timely preventive maintenance and New York State inspections.

MAJOR CONTRIBUTORS TO THIS REPORT

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Martha K. Hirst
Commissioner

May 30, 2002

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of Management Audit
and State Financial Services
123 William Street, 21st Floor
New York, NY 10038

Re: Audit of the Department of Citywide
Administrative Services' Monitoring
of the Vehicle Maintenance and
Repair Program (2001-N-3)

Dear Ms. Maldonado:

We have reviewed the draft audit and are generally pleased with the results. Although this audit has found a number of minor variances from program procedures, many of these variances are not within this Agency's purview. Furthermore, the Audit validates the control environment that DCAS established to protect its customer agencies. Before commenting in detail on the Audit itself, we want to present more general comments and clarifications to this Report.

Since the Preliminary Draft Report of this Audit was received and the Exit Conference was held, changes have been made to this report. This Draft makes two new comments that require clarification.

First, the text notes a prior audit, released in 1998, of contracted fleet maintenance (96-S-76), and states "(t)he audit revealed that DCAS did not monitor the contractor sufficiently to prevent the City from being billed for unnecessary and duplicate repairs." The casual reader of this Report should also be informed that the 1998 Audit was of the entire City (not only DCAS), and was found by the City to be severely flawed. Furthermore, the 1998 Audit was rebutted by the Mayor's Office of Operations in a 61 page response. DCAS controls at that time were essentially the same as they are today, and are judged by this Audit to be "reasonable controls for monitoring repair and maintenance work."

Secondly, the Report notes that DCAS would not provide representation letters as a matter of policy. We would like the reader to know that the policy is the City's policy for Mayoral agencies, not simply DCAS'. Generally Accepted Government Auditing Standards do not require representation letters for performance audits.

*
Note 1

* See State Comptroller's Notes, Appendix C

The Vehicle Maintenance Program

The State PHH vehicle maintenance contract is utilized extensively throughout the State by State agencies, and on a more limited basis by City agencies, to provide vehicle maintenance services. Our conversations with PHH personnel have led us to believe that DCAS, through the Office of Fleet Administration (OFA), offers one of the most aggressive and thorough monitoring programs in the State. We are therefore pleased that the Audit confirms that the implemented controls for this program are reasonable. However, we believe that the Audit reflects a fundamental misunderstanding concerning DCAS' role in the customer agency vehicle maintenance program.

Under the Fleet maintenance program, DCAS offers certain specific and limited services to agencies that elect to participate. Customer agencies are not charged for these services. The intent was to offer the customer agencies, which generally do not have in-house vehicle maintenance expertise, inspection and cost validation services that they would have difficulty providing otherwise. Accordingly, procedures were drawn-up that outline the respective responsibilities of all parties under this program; DCAS, PHH, and the customer agencies. It was never DCAS' intent, nor have the customer agencies agreed, for DCAS to become further involved in the customer agency fleet operations beyond that which was agreed upon and formalized in the procedures.

Throughout this Audit we had urged the auditors to expand the Audit scope to the customer agencies whenever a potential finding appeared to be in an area that was a customer responsibility. We believe that it is only by speaking with customer agency personnel and reviewing their records that a definitive determination can be made regarding any particular finding that falls within their responsibilities.

*
Note
2

The Findings

As previously mentioned, the findings in this report are minor and indicate that the controls that DCAS established to assist client agencies have been effective. Following is a brief discussion of these findings.

Inspections – The State PHH contract is utilized extensively throughout the State, and was bid with the requirement that users must approve all repairs that exceed \$750. DCAS negotiated a much narrower requirement, that all repairs over \$550 be approved by DCAS, as well as a significant monthly sample of repairs costing less than \$550.

Under the procedures established for this program, DCAS agreed with the customer agencies to pre-inspect all repairs that were estimated to cost more than \$550. The audit found that six inspections out of a total of 1,041 repairs that exceeded \$550 were not done because PHH failed to notify DCAS. This means that the auditors did not find fault with the 1,035 inspections (99.4%) for the remaining repairs. OFA was able to identify each instance that they were not notified, and discussed corrective action with the vendor.

The control objective, which was to avoid unnecessary costs by providing review for the most expensive repairs, was met even if the control procedure wasn't perfectly followed by the vendor.

Participating Vehicles – Customer agencies are responsible for registering their vehicles with the State Department of Motor Vehicles, and informing OFA when vehicles are added, salvaged, or transferred to other agencies. The Audit cited two problems in this area.

First, when comparing the vehicles on the PHH inventory to the Department of Motor Vehicles records, they were unable to match nine vehicles, and reported one as a being privately owned. Our examination of this data reveals that seven of the nine instances, including the alleged privately owned vehicle, were the result of typographical errors when coding the vehicles' VIN. Two vehicles, out of the 2,063 checked (0.1%), were not registered properly, and OFA has contacted the current owner agencies to take corrective action. OFA has now changed its process and is requesting a copy of the vehicle registration prior to adding a vehicle to the program, so that this problem should not reoccur.

Secondly, the audit reports that six vehicles which were salvaged were not removed from the PHH inventory in a timely manner. This resulted in the City incurring additional charges of \$3.90 per month for each vehicle for the period of several months.

Agencies are required to inform OFA of changes to their fleets, and for the most part, all changes are reflected in the PHH inventory system as they occur. As a double-check, twice annually OFA sends each customer agency a complete inventory of their vehicles that are covered by the PHH program and requests that they validate this inventory.

Because of the latter finding, the auditors recommended that DCAS periodically reconcile the entire program rather than relying on the customer agencies to validate their own inventories. We do not believe that this solution is either warranted or cost-effective. The auditors have established a problem that costs less than \$24 per month. We believe that this indicates that existing controls are substantially working, and additional resources are not justified in this area.

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Note
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Approved Vendors – The audit cites that nine vendors categorized as "Do Not Use" were used a total of 36 times costing \$8,193 over the two year period of this audit. The auditors have included the statistics for a vendor that was once considered for "Do Not Use" status, but was willing to correct its deficiencies and operate within acceptable parameters. This vendor was never placed in "Do Not Use" status, and accounts for 16 instances totaling \$4,858. The auditors were informed of this in a memo dated November 30, 2001.

The revised numbers would therefore be 20 instances for a total of \$3,335 (0.1% of the monies expended under the contract). Two of these cases were done with OFA agreement early in the PHH contract, when there was confusion about the status of a particular vendor. None of the other instances would have required DCAS pre-approval, and appear to be the result of drivers simply taking their vehicle to a conveniently located vendor without a PHH referral. This would be contrary to the program procedures, but not something that DCAS can control.

Warranty Work - The auditors cited unclear coding of repairs in the PHH computer system, and found \$248 of work that appears to have been eligible for warranty coverage.

Warranty repairs should be directed by the customer agencies to an authorized dealership, and should not be addressed within the PHH program, unless there is pressing need for a particular vehicle that cannot be delayed.

In this case, given that the value of the repair was less than \$550, it would generally not have been flagged for pre-review by DCAS, and is therefore an agency and PHH responsibility.

Preventive Maintenance and State Inspections – The auditors believe that agencies are not performing proper preventive maintenance and getting timely State Inspections. The procedures are clear that this is the responsibility of the customer agencies, and DCAS issues regular reminders in its newsletters.

Given the unclear coding cited by the auditors in the prior finding, we believe that it would have been prudent for the auditors to contact the affected agencies to verify the extent to which this may be true.

Recommendations

1. Recommendation: Perform periodic reconciliation of data in the PHH database with that in the Track 99 inspections report to verify that all repairs costing more than \$550 are being inspected as required by OFA procedures.

Comments: Agree. OFA has been doing this monthly, and will continue to do this.

2. Recommendation: Download a listing of authorized vehicles from the PHH database and match the results against the inventory records received from the agencies.

Comments: Disagree. As previously discussed, barring the identification of a significant problem, allocating additional resources to accomplish this is not cost-effective

3. Recommendation: Follow-up on the nine vehicles that were not confirmed in the audit as New York City-owned/registered.

Comments: Done. The results were reported earlier in this response. We have notified the current owner agencies of the two unregistered vehicles. We have changed our process to ensure that all vehicles are properly registered prior to being added to the PHH program.

4. Recommendation: Maintain a database of “Do Not Use” vendors and provide it to agencies regularly. Remind agencies to obtain a referral to an appropriate vendor from PHH.

Comments: Agree. We now send this list to customer agencies monthly.

5. Recommendation: Continue to impress upon the Transportation Coordinators the importance of timely preventive maintenance and New York State inspections.

Comments: Agree. We will continue to do that.

We appreciate the substantial amount of work that the auditors have done in examining many aspects of this program, including those that have not been reported in detail.

Very truly yours,



Martha K. Hirst

State Comptroller's Notes

1. The reference to Government Auditing Standards is incomplete because it does not reflect the fieldwork standards for Performance Audits for Tests of Evidence (6.55). Such standards provide that auditors may obtain written representations concerning the competence of the evidence they obtain from officials of the auditee. Written representations confirm oral representations given to auditors, indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations. For these reasons, we conclude that a representation letter was required for this audit.
2. We disagree with this statement based on actions by DCAS officials and the Mayor's Office of Operations. In May 2001, when we notified them that as part of our audit we were sending a questionnaire to the 37 participating agencies to obtain feedback about the agencies' experience with the program, DCAS and Operations officials not only objected to our sending the questionnaire to every agency, but also to some of the questions. We finally agreed that the auditors could select 10 agencies to receive the questionnaire, and would then meet with agency personnel to obtain information about the program.
3. Report was edited to reflect DCAS response to the audit recommendation.