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OFFICE OF THE
NEW YORK STATE COMPTROLLER

DIVISION OF STATE SERVICES

OFFICE OF GENERAL SERVICES

PHH VEHICLE MANAGEMENT SERVICES CONTRACT PS00546

Report 2005-R-1

AUDIT OBJECTIVES

The objectives of our contract audit were to determine, for the period April 1, 2002 through May 18, 2005, whether PHH Vehicle Management Services (PHH) delivered the services required under the New York State Office of General Services (OGS) Contract PS00546; whether contract billings were supported and appropriate for the purposes of fleet management program services; and whether OGS provided adequate oversight of contract operations.

AUDIT RESULTS - SUMMARY

OGS entered into a multi-year, multi-million dollar contract on April 1, 1998 with PHH of Hunt Valley, Maryland, for statewide vehicle fleet management services. This contract offers government entities access to various automotive services and included the following: centralized billing for vehicle repairs and maintenance; twenty-four hours a day, seven days a week (hereinafter, "24/7") telephone access to PHH automotive experts; and substantial pricing discounts from national service providers. The contract, which was originally awarded for a total of five years (including options to renew) at a cost of $36.6 million, has been extended and is now due to expire March 31, 2006 at a revised cost of up to $40.6 million.

- Based on our audit observations and discussions with contract users and service providers, we concluded that PHH has provided several of the basic contract deliverables: we observed PHH experts taking phone calls; we were provided with a list of PHH's network of participating national service providers; and we confirmed that PHH sends users monthly consolidated bills for their program-related vehicle charges. [Pages 5-6]

- We found that PHH telephone experts, known as Vehicle Maintenance Assistant (VMAs), did not document the certifications required by the contract, and PHH officials advised us that they did not confirm the qualifying experience of the VMAs. [Page 5]

- PHH has been billing member agencies for emergency roadside assistance services. However, these services should be covered at no additional charge by virtue of Program membership. [Pages 7-9]

- Contract users are not always accessing PHH experts prior to repair work, or verifying that PHH bills are accurate. [Pages 9-10]

- OGS officials have not adequately monitored contractor performance, provided contract users with important information about contract benefits and responsibilities, or determined users' overall satisfaction with the contract. [Pages 10-12]

- PHH would not provide our auditors with access to certain of its contract-related policies and procedures and discount or fee arrangements with service providers. As a result, we were not able to determine whether the State received full value under the contract. Most notably, we were not able to determine whether the State realized the $4.8 million in savings expected over the five-year original contract term or the $3 million of savings expected over the three-year contract extension. In addition, PHH would not sign our standard representation letter attesting to the accuracy and completeness of the

audit-related information provided to us.

- Our report contains eight recommendations to improve OGS's oversight of future fleet maintenance contracts. OGS officials do not agree with certain of our recommendations. As the contract is up for renewal, it is an appropriate time for OGS to consider ways to implement the recommendations. We further believe that OGS should use this opportunity to work with the vendor to obtain and analyze information the vendor would not make accessible during the audit and use these results in negotiating any renewal.

This report, dated August 4, 2006, is available on our website at: http://www.osc.state.ny.us. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
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BACKGROUND

OGS delivers essential support services for the operations of State government. Its mission includes providing these services through the development and management of efficient, responsive and cost-effective programs and activities. As such, on April 1, 1998, OGS entered into a five-year statewide contract for vehicle fleet management services with PHH Vehicle Management Services (Contract PS00546) at a cost of $36.6 million. The original five-year contract has been renewed annually for an additional three year cycle, and is now in effect until March 31, 2006. Between April 1998 and October 5, 2005, contract expenditures totaled $40.0 million.

Under this contract, user facilities (State agencies; agency field offices; public authorities, local government entities, and certain not-for-profits) can choose to have their vehicles and trucks serviced under one of two PHH options: Maintenance and Repairs as Needed (Maintenance as Needed) and Vehicle Management Assistance Plus (VMA+). For vehicles enrolled in Maintenance as Needed, PHH charges a monthly $5 transaction fee in any month an enrolled vehicle is serviced using this contract. Under VMA+, PHH charges a monthly flat fee of $3.95 per passenger vehicle and $35 per truck (over one ton). Repair and maintenance services are performed by participating service providers under contract with PHH. Operators of enrolled vehicles in either program are issued program participation cards, which must be presented to the provider at the time of service. As of February 2005, PHH reports 8,519 vehicles participated in the programs (6,566 - VMA+, and 1,953 - Maintenance as Needed). Statewide, in excess of 100,000 vehicles are eligible to participate in either program.

The contract requires PHH to provide the benefits listed below to vehicles enrolled in the Maintenance as Needed program.

- PHH provides a listing of service providers that vehicles can utilize under this program.

- PHH provides round-the-clock access for emergency roadside assistance service needs. The charge for any of five covered types of emergency roadside assistance services (gas; lock-out; flat tire; jump-start; or tow) is $30 per incident for each of the five covered services, in addition to the actual service charge.

- PHH sends user facilities consolidated monthly bills that include charges for all repair and maintenance services rendered at PHH service providers, as well as any relevant $5 per month transaction fees when services are provided.

PHH provides operators of vehicles enrolled in VMA+ with 24/7 telephone access to PHH consultants, and audited monthly bills from service providers, which include all monthly repair and maintenance charges for all covered vehicles, and the total monthly fees assessed for all covered vehicles. However, PHH is also required to provide VMA+ enrollees with the enhanced benefits listed below.

- PHH provides users with monthly Fleet Management Reports, which show the maintenance history of each VMA+ vehicle. The report indicates when a vehicle's maintenance is due (or overdue); whether a vehicle has had excessive repairs; and whether any warranties apply to proposed repairs or maintenance work.

- The contract provides for pre-work consultation with VMAs to help ensure the user facility pays for only reasonable and necessary work on covered vehicles. When proposed services total more than $100, the vehicle operator is to contact a VMA, describe the problem, and then go to a participating PHH repair shop. The VMA is responsible for negotiating a price for the repair; examining the vehicle's repair history to ensure that applicable warranties are used and to avoid duplicate or unnecessary work; approving the actual work to be performed on the vehicle, and determining whether the charge is consistent with the operator's description of the problem and contract pricing criteria. Costs of more than $750 ($1,000 for an accident) must also be pre-authorized by the user facility. Repair shops bill PHH for the vehicle charges, which PHH includes on its consolidated monthly bill.

- VMA+ vehicles are not charged the additional $30 per incident emergency roadside assistance fee for any of the five covered types of emergencies listed in the "Maintenance as Needed" Program noted above.

As of February 18, 2005, PHH had a network of about 3,200 participating repair shops state-wide. According to contract documents, certain of PHH's larger service providers, called National Accounts (e.g., Firestone, Goodyear, and Pep Boys), reportedly discount their retail rates from 15 to 28 percent for specific contract services, such as oil changes and glass replacement. As represented in the contract, a total of 18 nationwide automotive service chains (National Accounts) would provide such discounts under the contract. PHH is not to bill State agencies for sales tax associated with repair services.

According to PHH records, total contract billings including PHH fees for all participating State facilities were almost $6 million for calendar year 2003 and almost $7 million for calendar year 2004. During calendar year 2004, PHH processed almost 73,000 contract-related summary invoices.

AUDIT FINDINGS AND RECOMMENDATIONS

Contract Deliverables

Our audit determined that PHH does provide several basic contract deliverables: VMAs for referrals and consultation; a network of participating repair shops; and consolidated monthly bills for user facilities' program-related vehicle charges.

The contract requires PHH to provide vehicle operators enrolled in the VMA+ program with 24/7 access to VMAs; a network of participating providers; consolidated billing; and a monthly vehicle history and maintenance report. PHH must provide Maintenance as Needed enrollees with access to a provider network, as well as consolidated monthly billings.

We observed PHH consultants providing VMA telephone coverage and required referrals to repair shops. VMAs were available to refer vehicle operators to appropriate repair facilities, negotiate pricing with repair shops and authorize repair work. PHH provided us with a list of about 3,200 repair shops in its network. PHH also sends agencies a consolidated monthly bill, which lists the contract-related repair services provided during the period, and paid for by PHH, as well as the program or transaction fees due for the covered vehicles. PHH states that VMA+ bills are audited before being sent to the user facilities. We also found that PHH provides electronic maintenance histories for VMA+ vehicles on its internet site, an intended improvement to the hard-copy monthly management reports provided for under the contract.

Expertise of VMAs

In PHH's response to the Request for Proposal (RFP) which is incorporated into the contract, the company marketed the mechanical expertise provided by its VMAs as one of the key services to be supplied under this contract. According to these documents, VMAs include service specialists certified by the National Institute for Automotive Service Excellence (ASE), who have, on average, 20 years of experience. Although PHH officials initially hesitated supplying us with VMA personnel documents - so we could verify their relevant experience and required certifications - they eventually provided us with the application forms for 12 of their VMAs, and a listing of which of these were ASE certified. Upon inquiry, PHH officials noted that they do not, as a practice, confirm the information noted on job applications. They also did not supply us with photocopies of the actual ASE certificates the sampled employees reportedly possessed.

In fact, when addressing this issue, PHH officials informed us that many of the Specialists and Generalists who make up their fleet management team of 81 VMAs have far less experience than described in the contract. Officials acknowledged that Specialists, who account for about two-thirds of the VMA team, have an average of 7 (rather than 20) years of experience; Generalists have fewer than 4 (rather than 15) years of experience. Further, although Generalists can authorize transactions up to $300, PHH does not require them to have prior management and negotiating experience; they need only a basic knowledge of vehicle parts.

As a result, neither PHH, OGS or the user agencies have assurance that VMAs possess the qualifications and expertise represented by

the contract - and the associated value they reportedly add by using this service.

Recommendation

1. Require whichever contractor is awarded this contract to confirm the qualifications of its "expert" staff.

Anticipated Cost Savings

When OGS awarded this contract to PHH in 1998, it did so, in part, because it was estimated that, over the five-year life of the contract, the State would save a total of $4.8 million in vehicle repair and maintenance costs through the use of PHH's network of providers. PHH represented that these providers would bill PHH at deeply discounted rates for work performed on user facilities' vehicles. PHH represented that at least 18 National Accounts would bill repair service charges at rates that were 15 to 28 percent below retail prices. PHH was to pass the discounted rates on to the State's user facilities. However, we could not determine whether the State realized any of these anticipated savings.

PHH denied us access to various contract-related records set forth in the following paragraphs, claiming these materials were confidential or proprietary, and not subject to our review. Appendix A to the contract provides for exemption from disclosure to the public, under the Freedom of Information Law, of certain statutorily exempt records of a contractor thereby preventing auditors from publicly releasing such records. Despite such provisions, at the onset of the audit, PHH requested a confidentiality agreement with the Office of the State Comptroller (OSC). Although OSC negotiated and executed such an agreement with the company to further protect the confidentiality of certain records, PHH continued to deny OSC auditors access to requested documents. This lack of access constitutes an impairment of our ability to obtain essential audit evidence which the company is legally required to provide. PHH officials denied access to the records and documents listed in the following paragraphs.

- PHH contract-related policies and procedures. Since we were prevented from reviewing this information, we were unable to determine whether PHH directed the pass-through of any discounts to State user facilities on their consolidated bills. Further, we could not determine whether PHH had established any control procedures designed to verify that discounts were actually passed through to user facilities on their monthly bills.

- PHH procedures for auditing monthly bills. Without reviewing the procedures PHH follows to audit the bills it sends to user facilities, we could not determine whether such audits are actually performed, or whether they provide reasonable assurance that discount benefits were passed on to user facilities.

- PHH agreements with network service providers. During our audit fieldwork, we informed PHH officials that we would need access to its individual agreements with network service providers to determine whether the discounts and/or other fee arrangements it enjoyed with them were passed on in whole or in part to the State. PHH initially denied us access to these agreements citing confidentiality issues and trade secrets. Upon further discussion, and after our fieldwork was complete, PHH, via its independent counsel, sent us copies of such agreements with

nine national account vendors. However, in each of these agreements, the specific discounts and/or fee arrangements with the provider were redacted. Thus, we could not determine the extent to which service provider discounts are passed on to the State.

According to OGS officials, they also did not review PHH's contract-related policies and procedures, audit procedures, or the terms of its agreements with service providers. OGS officials also stated they have not confirmed PHH discount prices by requesting and reviewing price lists from National Accounts or other network providers. When we asked PHH for the price lists from the 18 National Accounts that were required to provide discounted rates to the users of this contract, PHH provided us with the 2005 price lists from only two of these National Accounts; a price list for prior contract years was available for only one of these two providers.

We found that the price charged to the general public at one national account provider for an oil change ($19.99) was lower than the price in the price list charged to enrolled vehicles ($25.49).

In addition, our audit tests identified two instances in which tires purchased from a PHH National Account actually cost significantly more than if purchased at the standard State rate available through another State contract. In one case, the two tires purchased from the National Account cost a total of $133; the State contract price for these two tires is $86.50, a difference of $46.50. In the other case, the two tires purchased from the National Account cost almost $166, the State contract price is $89, a difference of $77. Therefore, user facilities paid 54 percent and 86 percent more, respectively, when they purchased tires using the PHH contract. These conditions raise serious questions about whether the State is obtaining the discounts and related savings expected under the contract.

Recommendations

2. Consider the significant audit impairment issues and value-added questions noted in this report when this contract comes up for renewal.

3. Determine the extent of discounts from service providers enjoyed by PHH that were not passed on to the State and seek recovery of the overpayments made on associated discounted transactions.

Documentation of Service Costs

Services billed under this contract should be calculated according to contract terms, adequately supported, and appropriate for the contract. The contract requires that service costs be calculated using the lower of posted hourly or special promotional labor rates, and the least amount of authorized labor time, as listed in the Chilton Labor Guide or Mitchell's Mechanical Labor Estimating Guide (Guides). The contract requires the service provider to bill PHH timely, provide the operator with a work order/invoice, and keep appropriate documentation supporting services delivered and contract pricing, such as invoices of part purchases, as evidence that work billed for was actually performed. PHH should monitor VMAs' use of authorized pricing standards and available warranty benefits, and monitor providers' compliance with recordkeeping requirements. PHH's authorized charges should equal amounts billed to user facilities.

To determine whether the provider service costs billed by service providers to PHH, and by PHH to user facilities, were accurate,

supported and appropriate, we selected a random sample of 60 transactions from among the approximately 255,619 individual billing items processed by PHH during calendar year 2004. From these 60 transactions, we reviewed 16 which were billed to 11 different user facilities. For each sampled transaction, we visited the service provider to examine relevant documentation, and reviewed related records at PHH and user facilities.

As shown in *Table 1*, most service providers for these 16 sampled transactions were able to produce the associated invoices. However, two invoices supporting billings for an oil change and a tow, costing a total of $105 - were not available. Therefore, we were not able to obtain evidence of these services being performed. In addition, 4 out of 14 service providers could not document the purchase of parts (e.g., brakes) to support the associated billings. Most providers we visited posted their labor rates, and we have no evidence to suggest providers used other than the prevailing rates on the dates our transactions occurred. However, we were not able to determine if the proper number of labor hours, as referenced to either of the approved Guides, were used to calculate PHH charges for 8 of the 14 transactions (57 percent) due to reference guides not being available.

Table 1: Documentation of Charges at Provider Locations

	Invoice Available	Parts Record	Labor Rates Posted	Labor Time Calculation
Compliance	14	10	13	6
Noncompliance	2	4	1	8
Not Applicable	0	2 [a]	2 [a]	2 [a]
Total	16	16	16	16

a: Services (Emergency Road Service and routine maintenance) delivered by specialized service providers (Cendant & Jiffy Lube). Contractual terms concerning parts and labor rates were not applicable to the types of services delivered.

We found that VMAs are not using the Guides specifically required by the contract when they approve providers' cost estimates. PHH officials informed us that their VMAs sometimes use "All Data Pro" as a labor-rate guide, or based on their experience, may not use a guide at all. As such, the State has no assurance the labor payments authorized by VMAs are appropriate.

In addition, the labor rates for one of the repair transactions in our sample was billed according to the actual clock hours used to complete the jobs instead of the Mitchell or Chilton manual as required. Another six of the providers had labor hour manuals on hand but not the specific manuals called for in the contract.

The contract also provides for Emergency Roadside Assistance covering flat tires, lock outs, fuel delivery, jump starts, and tows. According to the contract, for vehicles enrolled in the VMA+ Program, the tow per incident fee is waived. To enroll vehicles in such program, the State pays a monthly charge per vehicle. We interpret the contract to require coverage under the VMA+ program at no additional charge for the five emergency roadside transactions (i.e. gas; lock out; flat tire; jump start; and tow service), given that the State pays a monthly charge per vehicle. This interpretation is consistent with the operations of vehicle maintenance plan models offered by other companies. If the State was to pay a monthly charge per vehicle for enrollment in the program and was also charged for each of the five emergency situations on a per incident basis, the State would experience no cost savings but would bear a higher cost under the contract than it would by directly paying a provider for service per incident.

Vehicles not enrolled in the VMA+ program are in the Maintenance as Needed program. For such vehicles, the contract provides for a per incident tow fee of $30, whether or not a tow is warranted. We interpret the contract to require that this $30 fee, assessed in each instance, covers the five emergency roadside transactions described above with no additional charges. Such $30 fee in this program is analogous to the monthly per vehicle fee assessed for those vehicles enrolled in the VMA+ program. A contrary result, in which the State pays an incident fee of $30 in addition to a fee for services rendered in each instance, results in much higher costs under the contract than would result from the State directly paying a service provider on a per incident basis.

Using a download of individual contract-related billings provided by PHH for the period April 1, 2002 to March 25, 2005, PHH charged the State over $519,000 for 11,525 covered emergency roadside transactions for both VMA+ and Maintenance as Needed vehicles. These charges were in addition to the monthly charge per vehicle and tow per incident fees already assessed. Thus, it appears, no matter which program a vehicle is enrolled in, the State does not realize any savings or discounts as a result of program membership. In fact, enrollment through PHH in such service plans actually resulted in a cost burden for the Maintenance as Needed vehicles, since it would have been more cost effective for vehicle operators to call a service provider directly for these types of emergencies rather than to go through PHH.

Documentation and Review at User Facilities

User facilities bear certain responsibilities for managing and controlling the contract's use to make sure they are only paying necessary and legitimate costs. Since PHH is solely responsible for authorization of all services costing between $100 and $750, user facilities should require vehicle operators in the VMA+ program to contact PHH when service is needed. By contacting a VMA, the operator can be directed to the nearest qualified provider; the operator can also give the VMA a first-hand account of the problem, and answer questions about the vehicle's performance or the completeness of PHH's maintenance vehicle records before the VMA discusses repairs with the provider. To help prevent billing abuses, user facilities should maintain invoices received from providers, and reconcile charges on invoices to charges on PHH monthly bills. User facilities should also review PHH bills to confirm they are not paying monthly program charges for enrolled vehicles they no longer own.

However, as a result of our visits to the 11 user facilities in our sample, we determined that:

- most operators of enrolled vehicles did not consult with VMAs before bringing their vehicles in for repair;
- user facilities do not consistently maintain provider invoices; and
- only four user facilities thoroughly reviewed and reconciled PHH bills prior to approving them for payment.

For example, we found that only 2 of the 14 vehicle operators (14 percent) in our sample of 2004 transactions contacted a VMA before the repair or maintenance work was done. PHH records for all transactions performed in 2004 indicate that only about 10 percent of the operators of covered vehicles contacted a VMA before their vehicles were serviced. During the first five months of 2005, PHH records show that operators had contacted VMAs only about 7 percent of the time.

Since VMAs authorize most repairs and negotiate the amount to be charged for services, their expert services should save the State money for vehicle repair work. When the VMA can discuss the vehicle's symptoms with the operator before being contacted by the repair shop, the VMA can learn information from the operator that could help assess the reasonableness of the provider's proposal to fix the problem. The VMAs can also prevent unnecessary charges for maintenance already performed by asking the driver if maintenance that appears to be due has already been performed. Since operators rarely contact VMAs, this cost-control feature of the contract is not working as intended. As a result, the user facilities may be paying for unnecessary or misdiagnosed repair work.

We also found that the user facilities in our sample could produce only 8 of the 16 service provider invoices related to our sampled transactions. User facilities should maintain individual invoices so they have the supporting documentation needed to reconcile the charges on the PHH monthly bill.

In addition, we determined that many agencies perform little or no review of PHH bills. For example, the 11 user facilities in our sample were subject to the following levels of review: 3 user facilities reconciled the monthly bill to provider invoices; the other 8 did not perform a comprehensive review of PHH monthly charges to verify the amounts billed were accurate and reflected actual work performed. To verify that the user facilities are paying correct amounts for services actually rendered, they should reconcile monthly bills to supporting invoices.

We believe that user facilities' lax monitoring of PHH billings is attributable, in part, to OGS not having established guidelines for them to use when reviewing contract-related billings. Such guidelines should emphasize the need to collect and maintain invoices to support monthly bills from PHH. They should also obtain PHH's discount price lists and compare charges to the lists.

Recommendations

4. Verify that PHH's VMAs actually used approved pricing Guides when approving repair charges. Seek recovery of over-billings resulting from VMA's approval of unauthorized rates.

5. Revisit the entire issue of "emergency roadside assistance" when considering renewing/re-awarding this contract. Ensure contract terms provide discounts and benefits to user vehicles, as opposed to cost penalties.

6. Develop and distribute guidelines to enhance and guide user facilities' control/monitoring over PHH monthly billings.

Administration of the PHH Contract

For effective implementation of this contract, OGS must provide user facilities with complete and accurate information about contract benefits and responsibilities, and actively solicit facilities' feedback about the contract's value. To adequately oversee PHH performance on the contract, OGS should verify that PHH is fulfilling contract requirements, such as providing discounted prices. However, we found that OGS has not communicated information about contract terms and benefits to user facilities, or actively monitored the contractor's performance.

Communication with User Facilities

OGS contracted with PHH for fleet management services to provide State and local government entities with an efficient and cost-effective means of managing vehicle repairs and maintenance. Since the PHH contract has many features and multiple users, it is essential OGS maintain effective communication with these entities to confirm the contract is meeting the needs of the users it was designed to serve.

However, we found that OGS cannot document providing such information to user facilities. For example, the contract requires PHH to provide VMA+ enrollees with monthly Fleet Management Reports, which summarize the maintenance history of each vehicle enrolled in the program. In December 1998, PHH put vehicle maintenance records for VMA+ enrollees on its internet site. PHH stopped sending hard-copy Fleet Management Reports to the user facilities. Although this was a change in the form of a major deliverable, OGS did not require a formal notice to user facilities of this change, or put a notice of the change on the OGS website.

PHH officials told us they have informed user facilities of this change and are available to educate user facilities about the maintenance reporting capabilities on their internet site. For their part, OGS officials said they viewed the change from paper to electronic reporting simply as an enhancement rather than a change in contract terms.

However, the change from hard-copy format to electronic format may not have benefited all contract users. Discussions with officials at the user facilities we visited during this audit revealed that, when this change occurred in 1998, vehicle management personnel at some user facilities did not have access to the internet. As of May 2005, eight of the user facilities participating in the VMA+ program are not accessing PHH vehicle history reports on-line to review vehicle maintenance data or to identify excessive repairs. In fact, officials at two of these facilities told us they did not know this information was available on the PHH website. As a result, contract users are paying monthly fees of $3.95 per passenger vehicle and $35 per truck without availing themselves to one of the VMA+ benefits specified in the contract: monthly Fleet Management Reports. Keeping contract users informed about contract benefits - especially changes in those benefits - is OGS's responsibility.

OGS should also provide user agencies with reliable information for the day-to-day implementation of this contract. However, we found that information about the contract on OGS's website was sometimes misleading or inaccurate. For example, although the website states this contract offers significant discounts on vehicle services, OGS has not provided user facilities with price lists illustrating the discounts, or information about where to obtain such price information. The OGS site also inaccurately describes work authorization guidelines. Although PHH permits drivers to authorize services up to $100, the OGS website states that this threshold is $50. User facilities expect, and should receive, complete and accurate information about an OGS contract on the OGS website.

As noted earlier, OGS should also have developed, and regularly updated, guidelines for using the contract and controlling contract-related costs. Guidelines could advise user facilities how to take advantage of the contract's benefits, including accessing on-line vehicle history data, and stress the need for user facilities' controls over contract payments (e.g., operator contacts with VMAs; reconciliation of PHH bills).

Lastly, OGS should encourage two-way communication about this contract: OGS should not only inform user facilities about the contract's terms, benefits and responsibilities, but also solicit feedback from users about their experience with the contract. However, we found that OGS has not surveyed user facilities about the quality of PHH fleet management services during the audit period. Instead, OGS expects user facilities to report their feedback on the OGS website and note that they have not received any complaints about the PHH contract from this website. Nonetheless, officials at four user facilities visited told us that they had unanswered questions and concerns about the contract. OGS should actively seek feedback from user facilities to obtain their assessment/understanding of this contract's value.

OGS officials maintain that it is a service agency, whose obligations involve making purchasing opportunities available for government entities, not monitoring individual vendors. However, OGS policy states that it is responsible for monitoring contractor performance. Furthermore, when OGS negotiates a statewide contract for services, and promotes the advantages of the contract on its website, there is a presumption on the part of user facilities that OGS has vetted the contractor and verified the contractor's cost-saving claims. We note OGS's expertise in this area, as prior to divestiture, it managed the State fleet of vehicles.

Recommendations

7. Communicate with user facilities regarding the controls/monitoring necessary to review state-wide vehicle maintenance contract-related billings.
8. Establish procedures to monitor contractor performance on state-wide vehicle maintenance contracts, and obtain periodic feedback on contractor performance from user agencies. Use the results to assess contractor performance, propriety of contractor billings, and vendor responsibility.

AUDIT SCOPE AND METHODOLOGY

We conducted our audit according to generally accepted government auditing standards. We audited the Office of General Service's Administration of Contract PS00546 (PHH Vehicle Management Services) for the period April 1, 2002 through May 18, 2005. The objectives of our financial-related contract audit were to determine whether the services required by contract were delivered by PHH; whether contract billings were supported and appropriate for program purposes; and whether OGS provided adequate oversight of contract operations.

To accomplish our objectives, we reviewed contract PS00546 and associated documents; and reviewed a sample of PHH billings and relevant supporting records such as service provider invoices, work orders and vehicle maintenance reports. We also met with representatives from OGS, PHH, certain service providers and user facilities to confirm our understanding of contract terms; identify and assess the relevant contract-related records and reports maintained by these parties; and discuss our audit observations. We visited the following 11 user facilities during this audit: Corcraft Products, Department of Health, Department of Labor, DDSO - Capital District, DDSO - Finger Lakes, DDSO - Western, Lottery, Office of Children and Family Services, Office of General Services, Rockland Psychiatric Center, and SUNY-Stony Brook.

Except for the audit limitations detailed below, we conducted our audit in accordance with generally accepted government auditing standards. During the course of our audit, PHH denied the audit team access to certain audit-relevant documents such as the agreements and financial arrangements between PHH and its service providers; and PHH's written contract-related policies and procedures. PHH also did not provide us with standard written representations to affirm that PHH had made all records and related data available for audit and that PHH had disclosed any irregularities or transactions which would have a material effect on those records. Without access to these documents, we were not able to determine whether all contract-related documents were provided or whether the State received full value under the contract.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed according to the State Comptroller's authority under Article V, Section 1, of the State Constitution; and Article II, Section 8, of the State Finance Law.

REPORTING REQUIREMENTS

A draft copy of this report was provided to OGS officials for their review and comment. Their comments were considered in preparing this report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of OGS shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising of the steps that were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were William Challice, Frank Patone, Anthony Carbonelli, John Lang, Theresa Nellis, Geraldo Vasquez, and Nancy Varley.

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May 5, 2006

Mr. William Challice
Audit Director
Office of the State Comptroller
Division of State Services
State Audit Bureau
123 William Street – 21st Floor
New York, NY 10038

Dear Mr. Challice:

I am writing in response to the Office of the State Comptroller (OSC) Draft Audit Report 2005-R-1 PHH Vehicle Management Services Contract PS00546 issued March 22, 2006.

The audit report makes clear that the auditors did not develop an adequate understanding of the issues and did not provide a fair presentation of issues in proper perspective as required by Generally Accepted Government Auditing Standards 8.13.

*
Comment 1

While the Office of General Services (OGS) agrees there are areas for improvement in this service contract, it is OGS' position the contract offers many benefits to users and does so at costs comparable to others in this market. The rest of response sets forth the substantive concerns we have with the audit report. For your convenience, these responses are presented in the same order as the audit report.

Expertise of VMAs

One of the services provided through this contract is a call center with staff knowledgeable about automotive repairs. The call center deals with service providers to: maximize warrantee coverage; ensure proposed work is necessary based on a vehicle's age, mileage and repair history; ensure the number of hours charged for a task are consistent with guidebooks of standard labor charges for repairs; and ensure that the price of repairs is reasonable. Contract users are encouraged to call the center prior to seeking service for guidance on the nature of the repair, whether it might be covered

recycled paper

*** See State Comptroller's Comments, page 22**

under warranty and for guidance on where to take the vehicle for warranty service. PHH's proposal provided a description of the qualifications of the staff delivering these services at the time of their bid. This information was reviewed to determine whether the firm was qualified to provide these services. As the contract files indicated, PHH was the only responsive bidder to this solicitation. Importantly, as OSC has been advised, the OGS request for proposal did not set minimum qualifications for the staff delivering services and the contract did not require that call center operations to function exactly as described in their offering. The contractual obligation was to provide qualified staff and provide acceptable services. Subsequent to award, PHH reorganized their call center operation, creating tiers of staff, resulting in a more risk-based allocation of resources. Less experienced staff and were assigned to handle repairs less than $300 in value while more significant repairs were handled by more experienced staff. The audit does not demonstrate that PHH's reorganization negatively affected service delivery. Further, the audit does not find that PHH staff are not competent or not providing acceptable services.

** Comment 2*

Anticipated Cost Savings

As OSC is aware, the subject contract between PHH Vehicle Management Services (PHH) and OGS was the first automotive services contract developed by Procurement Services Group (PSG). With only one responsive vendor, OGS entered into negotiations to seek better terms from PHH. Those negotiations added to the complexity of contract.

The contract, PHH's proposal and the letters of clarification all reference cost savings and discounts available from certain national account vendors under this contract. Unfortunately, the exact nature of the discounts and savings available is not clear. The actual terms of PHH's original proposal were not clear to start with: they appeared to offer 5% off invoice pricing, but qualified that offer with the following:

** Comment 3*

> "PLEASE NOTE THIS PERCENTAGE IS AT PARTICIPATING NATIONAL ACCOUNTS LOCATIONS ONLY, AND APPLIES TO DISCOUNT ALREADY PASSED THROUGH ON INVOICE – NO ADDITIONAL DISCOUNT WILL BE GIVEN OFF OF INVOICE."

PSG made considerable efforts to gain an understanding of what was offered. As a result of those discussions, section 4(i) of the contract states, "Given the pricing discounts to be passed through by the Contractor for its National Accounts pricing as described in Contractor's Proposal, the 5% volume discount set forth in the Proposal is hereby deleted." While this change only partially clarifies the contract term (because the proposal does not clearly describe pricing for National Accounts), it does clarify that

** Comment 3*

*** See State Comptroller's Comments, pages 22 - 23**

PHH was not going to provide 5% off the invoice pricing. The contract was reviewed and approved with this shortcoming. During the extensive examination of the contract file and questioning during this audit, it was determined that the discounts are the lower pricing generally offered by National Account service providers when compared to "independent" service providers, including dealerships. For most of the described National Account vendors, this is the same as retail pricing. For services obtained from Firestone and Goodyear, the pricing is each vendor's own National Account pricing. While the Firestone and Goodyear national pricing is consistent at each facility, it can be a higher or lower than the price than charged to retail customers at that location depending on promotions or the competitiveness of the local market.

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Comment 3

OGS included cost savings information based on the difference in national account and independent service provider costs in the contract transmittal letter sent to OSC. This represents only OGS' calculations of potential cost savings based on a series of assumptions. In retrospect, our cost savings analysis did not describe the underlying assumptions on which it was based. If it had, the issues related to discounts might have been avoided. During meetings with other vendors that offer these services, OGS has learned that this pricing structure is consistent with industry practice.

Significantly, the audit elects to omit the actions undertaken by OGS to investigate the contract provisions. This issue of discount pricing was cause for concern with contract users at the start of this contract. In 2001, to resolve issues related to pricing and possible duplicate billings, PSG requested that OSC audit the billing under this contract. OGS worked with OSC auditors to obtain a download of the billing detail for analysis using specialized audit software. While OSC did not issue an audit report, all submitted bills were approved and paid. The clear conclusion reached by OGS and contract users was that OSC believed the contract billings were in accordance with contract terms. OGS and the contract users materially relied on OSC's actions and it is disingenuous to omit this fact from the audit. The audit report does not provide a fair presentation of this issue in proper perspective as required by Generally Accepted Government Auditing Standards.

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Comment 3

Recommendation 2 indicates that OGS should consider the significant audit impairment issues and value-added questions and Recommendation 3 calls for OGS to "[d]etermine the extent of discounts from service providers enjoyed by PHH that were not passed on to the State and seek recovery of the overpayments made on associated discounted transactions." The contract does not provide for additional discounts. The audit team may prefer that the contract contain such terms, but it does not. There is no room in an audit for criticism based upon preconceived ideas or anything less than objective evaluation.

*
Comment 3

*** See State Comptroller's Comments, pages 22 - 23**

Because the contract does not provide for such "pass through" discounts, the underlying contracts between PHH and its network service providers do not fall within the scope of Appendix A, clause 10, which establishes an obligation for the contractor to provide access to Records to various State agents, including OSC, under certain circumstances. The audit team considers this to be an impairment of the audit process. The clause makes clear that access is not provided to every slip of paper, but instead only to "Records" "directly pertinent to the performance under this contract". Because the contract does not require that contract users receive discounts off invoice and the national account discounts described are based on the difference between national account pricing compared to independent and dealer pricing, PHH's vendor agreements and its audit process related to those discounts are not directly pertinent under the terms of our contract. To include in the audit report a direct implication that overpayments were made and direct that we "...seek recovery of overpayments" is certainly inconsistent with the audit findings.

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Comment 3

Documentation of Service Costs

Emergency Roadside Assistance

The auditors developed an unsupported contract interpretation and then drew inappropriate inferences. While there are no audit recommendations associated with the OSC interpretation with regard to the cost of roadside assistance, we believe it important to clarify the record. As you recall, the parties had significant discussions regarding the contractual provisions regarding road side services and whether such services are billable under the contract. OGS has stated it position, supported by OSC's audit of bills in 2001, referenced above, that the contract coverage under the VMA+ Program for emergency roadside assistance is $30 per incident plus the cost of services provided.

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Comment 4

Page 9 of the Report, states that OSC "interpret the contract to require coverage under the VMA+ Program at no additional charge for the five emergency roadside transactions (i.e. gas; lock out; flat tire; jump start; and tow service), given that the State pays a monthly charge per vehicle." The report goes on calculate how much has been spent on these five services. We find no basis for this interpretation. PHH's proposal states that emergency roadside assistance will be $30 per incident plus cost of services provided. The $30 per incident fee was removed during negotiations for vehicles enrolled in the VMA+ program, but there is no provision requiring that any service would be provided without charge. The report does not contain a recommendation that this money be recovered, only that the issue of emergency roadside assistance be considered in future contracts to ensure that contract terms provide discounts and

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Comment 4

*** See State Comptroller's Comments, pages 22 - 23**

benefits as opposed to cost penalties. We can only surmise that the report does not recommend seeking recoveries because the finding is known to be unjustified.

The audit also questions whether PHH billed contract users the correct labor hours. This area of the report is troubling because it appears to raise a legitimate audit issue but fails to address it. The audit logically calls for the comparison of the actual labor charges to the Mitchell or Chilton labor guide books cited in the contract. The auditors did not use their audit software to compare actual labor charges from their download of billing data to the guides nor did they compare the guide actually in use by PHH to the Mitchell or Chilton guides. To address the issue the auditors report pulling a sample of 60 transactions. From that sample they looked at only 16 transactions. For 6 transactions the service provider had either the Mitchell or Chilton guide on hand and the auditors found that the labor charges were accurate. If the service station had a different labor guide book or used clock hours as one station did, the auditors did not complete the test to determine if the labor hours billed were accurate. Instead of completing the audit step, OSC's Recommendation 4 calls on OGS to "[v]erify that PHH's VMAs actually used approved pricing Guides when approving repair charges, and "Seek recovery of over billings resulting from VMA approval of unauthorized rates." Not obtaining access to data necessary to complete the audit step demonstrates a gap in the audit planning and conduct of this audit which is inconsistent with Generally Accepted Government Auditing Standards.

** Comment 5*

Documentation and Review at User Facilities

The audit faults OGS for not developing guidelines for users on how to review contract billings. As users have different organizational structures and operate under different statutory provisions (i.e., State Finance Law, General Municipal Law and Public Authorities Law), there is no "one size fits all" model for how users should review their bills. Furthermore, the obligation to review and reconcile contract billings is not unique to fleet management services. This is an ordinary function of bill payment. Each user is already responsible for the development and implementation of internal guidance for its staff performing the review and reconciliation functions. Guidance regarding the general obligations of State agency users when submitting bills for payment is already provided through OSC via the A and G bulletin series. We do not believe separate, additional guidance on how to review standardized billing would have impacted the observation of lax monitoring.

** Comment 6*

Communication with User Facilities

The audit report is critical of PHH changing from paper reports to making reports available to contract users via the internet because some agencies were not using the electronic reports available. PHH worked with contract users to establish user accounts

*** See State Comptroller's Comments, pages 23 - 24**

at every agency that participates in the VMA+ program. PHH stated they would have continued to send any contract user paper reports if requested. We do not believe a lack of communications caused some contract users not to utilize the reports and other services available under the contract. We find it interesting that another audit conducted by OSC of our contracting process is critical of us for not making enough data available via the internet. OGS believes that offering internet based reports is a huge enhancement to the contract services. It allows users to look at information about one vehicle or all their vehicles, allows access to reporting by multiple people throughout an agency, and saves record storage space and paper.

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Comment
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The report is also critical of the contract information provided by OGS. We agree that some of our attempts to put contract language into a more reader-friendly wording may have resulted in confusion. For example, the description of discounts available through the contract was not clear for contract users. However, the contract award notice was updated during the audit to address issues raised and to add additional clarification.

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Comment
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The report is also critical of PSG for not soliciting feedback from contract users. The first page of our contract award document on our web site (see Attachment A) identifies several different options for the user to submit feedback and inquiries.

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Comment
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We believe that contract users are aware that contract information is available on our web site and it is OGS' position that this is an adequate way to communicate with contract users. Contract users have the Purchasing Officer's name and phone number, email address and a fax number. The header on the page has our US Postal address if a contract user prefers to use formal correspondence. This is more than adequate contact information. In addition to the solicitation of feedback, OGS also conducts annual customer surveys. In conjunction with actively soliciting feed back, PSG follows up on responses in a continuing effort to improve. However with over 2800 contracts, thousands of contract users and less than 100 employees to handle all aspects of the centralized contracting function, OGS has made determinations regarding allocation of limited staff resources. When we learn of issues or questions regarding a contract, input is sought from contract users via phone calls or meetings. Contract users are responsible for obtaining contract information readily available to them, asking questions when something is unclear and notifying PSG when contract issues arise.

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Comment
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The statutory obligation to establish centralized contracts is vested with OGS and OGS exercises professional judgment fulfilling these obligations. While OSC identifies different ways in which OGS could elect to fulfill its obligations, ultimately the decision rests with the agency statutorily charged with the responsibility and most knowledgeable about the resources available and the competing statutory obligations.

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Comment
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*** See State Comptroller's Comments, page 24**

The audit report describes two instances where tires were purchased through the PHH contract. PSG has separate contracts for tires that offer better pricing than through the PHH contract. Contract users are advised to purchase tires using the tire contracts. For calendar year 2005, sales reports indicate over 127,000 tires were purchased from these other contracts. The purchase of tires through the PHH contract is warranted when tires are found to be dangerous to drive on, or other similar circumstances. Consideration of all tire purchases in perspective demonstrates that OGS' guidance on tire purchases reaches contract users and that the purchase of the four tires was likely warranted under the specific circumstances. However, the audit fails to indicate whether inquiry was made about why these four tires were purchased.

** Comment 8*

Conclusion

Overall, this audit report is not of a quality that we expect. It is not a fair and accurate presentation of issues related to this contract. As noted throughout this response, the report is based on inaccurate contract interpretations and assertions, and focuses on issues outside the contract scope while disregarding issues within scope. OGS strives to use audit reports to improve the customer services. Despite the shortcomings of the audit report, the audit process did result in OGS better articulating the contract terms and operation through updated web information. This information will be used to improve the next contract for these services. We believe that users of OGS contract have benefited from the working relationship that our Offices have maintained over the years and we hope that we can return to a more constructive process on future audits.

** Comment 9*

Sincerely,

Robert J. Fleury

cc: B. Curtin
B. Russell
W. Bikowitz
J. Mastromarchi

*** See State Comptroller's Comments, page 24**

Attachment A

State of New York Executive Department
Office Of General Services
Procurement Services Group
Corning Tower Building - 38th Floor
Empire State Plaza
Albany, New York 12242
http://www.ogs.state.ny.us

CONTRACT AWARD NOTIFICATION

Title	:	Group 72002 - AUTOMOTIVE FLEET MAINTENANCE Classification Code(s): 25, 78, 84, 90
Award Number	:	S950190
Contract Period	:	April 1, 1998 to March 31, 2006
Bid Opening Date	:	June 30, 1997
Date of Issue	:	October 21, 2005 Update
Specification Reference	:	As Incorporated In The Invitation for Bids
Contractor Information	:	Appears on Page 2 of this Award

Address Inquiries To:

State Agencies & Vendors	Political Subdivisions & Others
Name : Donald L. Simpson Title : Purchasing Officer I Phone : 518-474-2802 Fax : 518-474-8676 E-mail : donald.simpson@ogs.state.ny.us	Customer Services Phone : 518-474-5717 Fax : 518-474-2437 E-mail : customer.services@ogs.state.ny.us

The Procurement Services Group values your input.
Complete and return "Contract Performance Report" at end of document.

Description

Contract is to provide participating State and eligible non-state agencies with the ability to have vehicle maintenance and repair services, tracking of such services, and consolidated billing. (Please see a more comprehensive summary under "SCOPE".)

This update is intended to update PHH address and contact information, correct some transcription errors that appeared in the original summary of the award, reduce the repetitiveness of information, incorporate information from Purchasing Memoranda, include updated versions of some standard clauses, and to more clearly state the programs and pricing.

EXECUTIVE ORDER NO. 127 (EO127):

The Office of General Services has determined that New York State Executive Order No. 127 (EO127) applies to this contract(s). Detailed information about the obligations under EO127 can be found on the OGS website at: http://www.ogs.state.ny.us/legal/ExeOrder127/overview.asp. Covered agencies and authorities must ensure compliance with EO127 for purchases in excess of $15,000. The contract incorporates by reference, as though fully set forth in the contract, all requirements and obligations required by EO127.

Contract #S950190

(continued)

We note at the outset that OSC approved a six month extension of the OGS-PHH contract to allow OGS additional time to complete a competitive solicitation for the future provision of fleet maintenance services to New York State.

1. OGS officials assert that the assigned audit staff did not comply with GAGAS in presenting the issues described in the Report.

   The particular GAGAS provision cited to requires that reported audit findings be supported by sufficient, competent and relevant evidence, and be presented in a manner which promotes adequate understanding of the matters reported. We believe the Report more than satisfies this standard.

2. OGS asserts that the RFP did not set minimum qualifications for the PHH VMA staff delivering services for this contract and that the contract did not require that call center operations function exactly as described in the PHH Proposal.

   The contract expressly provides that the contractor's proposal and related correspondence are merged therein. Accordingly, even if, as OGS asserts, the RFP did not set minimum qualifications for its VMA staff, the proposal submitted by PHH, combined with the express negotiated language of the contract, obligated it to provide staff having such qualifications. Once that contract is executed by OGS and PHH and approved by the Comptroller, any changes in contract terms must be included in a formal amendment, signed by the parties and approved by the State Comptroller prior to implementation. Where, as here, PHH reorganized its business in such a manner that the services it provided varied from those originally agreed upon, the contract should have been amended to reflect such change.

3. In the response to the Report, OGS officials confirm that they had an unclear understanding of the discounts and savings the State would enjoy as a result of this contract. Notwithstanding this admission, the agency then proceeds to dispute the Report's findings concerning provisions that are clearly presented in the contract and vendor proposal.

   For example, PHH represented in contract documents that a total of 18 National Accounts providers would discount their retail rates from 15 to 28 percent for specific contract services. Section 4(i) of the contract further provides: "Given the pricing discounts to be passed through by Contractor for its National Accounts pricing as described in Contractor's Proposal, the 5% volume discount set forth in the Proposal is hereby deleted." The Contractor's Proposal (PHH's Response to the RFP) with respect to the National Account Purchasing program, states on page 11: "An important value that PHH's large presence in the automotive marketplace offers you is the opportunity to provide your drivers with quality automotive suppliers and convenient services at uniform discounted prices."

   In its response to the Report, OGS claims to have determined that "[T]he contract does not provide for

additional discounts[.]", despite the plain language contained in both the contract and PHH's proposal incorporated therein.

OGS further asserts that PHH's refusal to let the audit team review the agreements between PHH and its various service providers is improperly categorized in the Report as an audit impairment. OGS maintains that since there are no discounts required to be passed onto the State, there is no need for our team to review such agreements.

We disagree. Our review of the agreements between PHH and its various service providers is crucial to our ability to verify whether the pricing applied to the State is reasonable. If PHH is being paid fees, rebates or some other benefit by its service providers as a result of the State's business, there is a consequent impact upon the prices charged the State. Thus, the agreements between PHH and its providers are directly relevant to performance under the contract, and access to such agreements should have been provided as required by the contract.

In addition, OGS asserts that its 2001 referral of selected contract billings to OSC suggested that PHH's billing practices were in accordance with contract terms since OSC paid all of the claims. OGS asserts that our report is not in accordance with GAGAS because we failed to address this referral which took place prior to the audit scope period.

In the 2001 referral, OGS provided information on a series of complaints submitted by agencies about the contractor. The information provided did not address the particular issues presented in our audit. Moreover, when we reviewed the supporting information received from OGS, we found that the agencies had already resolved the complaints themselves. We did not identify any of the issues concerning this vendor which are presented in this Report until after commencing the current audit.

4. OGS officials state that the audit's observations and comments regarding emergency roadside assistance are without basis. In fact, we did not recommend that OGS seek recoveries regarding this particular service because we recognize that the contract language is ambiguous, and OGS failed to offer clarification of such language despite repeated requests. However, we maintain that any interpretation of the contract provisions that results in the State having to pay more for these services than it would have to pay if it had not entered into the contract yields an illogical and fiscally undesirable result.

5. OGS officials state that the audit team failed to obtain necessary data regarding its comments on labor hour guidebooks, and as such, did not comply with GAGAS.

   The auditors' intent in presenting this issue in the Report is to evidence an additional breach of contract compliance which should be addressed by OGS officials.

6. OGS officials maintain that it is not their responsibility to provide

guidance to user agencies on how to review contract-related billings, and they offer several reasons for such lack of responsibility.

As the contract awarding agency, OGS has inherent responsibilities regarding contract oversight and contractor operations. Contractor oversight entails monitoring service deliverables as well as billing-related operations to ensure inter-agency consistency, accuracy of contractor billings, and accurate contractor reporting. Although OGS officials appropriately note that the way an agency pays its bills in general is not an OGS responsibility, clearly OGS is responsible for ensuring each user facility has a basic understanding of what it is to receive from a contractor, what is billable pursuant to contract, and how to treat aberrations.

7. OGS officials note that our Report criticizes PHH for changing its vehicle history reporting system from a paper based system to an electronic one, while another recently issued OSC report criticizes OGS for not utilizing the internet enough. They further note that we are critical of them for not soliciting feedback from contract users, and, in response to this point, they supplied us with a copy of a notice to agencies dated October 21, 2005 soliciting user feedback.
   As noted in our Report, we do not take exception to an electronic vehicle history reporting system. We do note, however, that by OGS and/or PHH not reaching out to user facilities to inform them of this format change - and how to use it - it is difficult if not impossible for users to take advantage of the enhanced system. Further, the October 21st notice to agencies was issued toward the tail-end of our audit field work after this issue had already been raised with OGS officials.

8. OGS officials note that although tires can be purchased for State vehicles at a better price on centralized contract, certain circumstances may warrant the purchase of tires from PHH (e.g., an emergency situation, etc.). They further state that the audit failed to note whether such an inquiry was made.

   We agree that it would be fair to note the circumstances warranting the tire purchases noted in our Report. Our supporting working papers note that the tire purchases were made as a result of the service provider's recommendation due to wear and tear. No emergency situations were cited. Therefore, it appears that no exigency required that the particular tires be purchased at PHH's higher prices.

9. Finally, OGS officials assert that our report is not of the quality they would expect. Nevertheless, they expressly acknowledge the benefits that resulted from our audit of this contract.