



*The State of New York  
Office of the Comptroller  
Bureau of Management Audit  
Audit # 96-S-076*

---

H. CARL McCALL  
NY State Comptroller



*The City of New York  
Office of the Comptroller  
Bureau of Management Audit  
Audit # ME96-179A*

---

ALAN G. HEVESI  
NY City Comptroller

**Audit of New York State and New York City's  
Use of  
GE Capital Fleet Services for  
Automotive Maintenance and Repair**

September 29, 1998

H. Carl McCall  
NY State Comptroller

Alan G. Hevesi  
NY City Comptroller

First Deputy Comptroller  
Comer S. Coppie

First Deputy Comptroller  
Steve Newman

Executive Deputy  
Comptroller  
Edward Fitzpatrick

Deputy Comptroller for  
Audit  
Robert Attmore

Deputy Comptroller for  
Audit  
Roger Liwer

Assistant Deputy  
Comptroller for Audit  
Diana Jones Ritter

Assistant Deputy  
Comptroller for Audit  
Guy Carlsen

Audit Directors  
William Challice  
Carmen Maldonado

Audit Director  
Gary Rose

Audit Manager  
Dominick Vanacore

Audit Manager  
Cheryl Pemberton

Audit Supervisor  
Brian Mason

Audit Supervisor  
Sekou Kamara

Auditor-in-Charge  
Robert Elliott

Staff Auditors  
Alexander Ruiz  
Jorge Vasquez  
Roslyn Watrobski

Staff Auditor  
Adeline Caruso

Report Editor  
Nancy Varley

Report Editor  
Eric Johnson

*The State of New York  
Office of the Comptroller  
Bureau of Management Audit  
Audit # 96-S-076*

*The City of New York  
Office of the Comptroller  
Bureau of Management Audit  
Audit # ME96-179A*

## **Audit Report on the New York State and New York City's Use of GE Capital Fleet Services for Automotive Maintenance and Repair**

---

### **EXECUTIVE SUMMARY**

#### **Background**

GE Capital Fleet Services (GECFS), a subsidiary of General Electric Capital Corporation (GELCO), is a provider of fleet management services for vehicle repair and maintenance. Acting as a "facilitator," GECFS arranges for vehicle services to be performed at any of its participating vendors, within a network of independent garages and dealerships.

On July 19, 1993, New York State's Office of General Services (OGS) entered into a three-year contract with GECFS to provide automotive repairs and maintenance services to State agencies. In 1994, New York City agencies began using GECFS for automotive repair and maintenance services by issuing purchase orders against the State contract.

The contract required GECFS to coordinate the State's and City's fleet maintenance and repair programs and provide the necessary billing, payment and record keeping services for the period August 1, 1993, to July 31, 1996. This contract, originally set to expire on July 31, 1996, was extended to July 31, 1997. Since then, it was extended on a month-to-month basis until March 31, 1998.

On April 1, 1998, PHH Vehicles Management Services of Hunt Valley, Maryland, replaced GECFS as the new contractor. (This contractor has about 270 vendors in the New York Metropolitan area, many of whom are the same as those that were provided by GECFS. Furthermore, there is no major difference between the services provided by GECFS and PHH. Therefore, the findings and recommendations in this report are likely to remain applicable.)

## Coordination of Audit Work; Report Format

This audit of GECFS was conducted concurrently by the New York State Comptroller's Office and the New York City Comptroller's Office. The results of both audits are merged in this joint NYS/NYC Comptrollers' report.

During the course of the audit, staff of the State and City Comptrollers' Offices met to develop and coordinate the audit methodologies. They also determined the format for reporting the State and City's findings. In each section of this joint report, the findings and recommendations are organized as follows:

- a detailed description of State findings,
- a detailed description of City findings,
- a combined conclusion,
- State recommendation(s), and
- City recommendation(s).

Following the sections where State and City findings of a similar nature are reported together, other sections describe findings and recommendations developed separately by the State and City auditors, resulting from specific audit tests.

The State auditors assisted the City auditors during the review of GECFS' billing files by using the State's specialized audit software. In addition, the State Comptroller's Office participated in the City auditors' controlled field test of the work quality of GECFS vendors, which is discussed in more detail in the methodology section of this report.

Specifically, the State Comptroller's Office assisted the City auditors in deciding which vendors to include in the controlled field test and by providing resources (i.e., staff, vehicles, and repair funds). These additional resources allowed the City auditors to expand the test to maximize the use of the limited resources available to both Comptrollers.

The City auditors were concerned that the limited number of City Comptroller's vehicles available would have required the auditors to bring the same vehicle to

EXECUTIVE SUMMARY:  
COORDINATION OF AUDIT WORK,  
( STATE AND CITY )

many GECFS vendors during the testing period. This might have enabled GECFS or its vendors to detect the controlled field test before the City auditors had visited the number of vendors required to project the financial implications of the City auditors' findings in a valid statistical manner.

In this connection, the additional vehicles provided by the State Comptroller's Office allowed the City auditors to complete a statistical sample of vendors during the review.

## State Comptroller

OGS signed its three-year contract with GECFS on July 19, 1993. In June 1993, the Division of the Budget transferred responsibility for managing State vehicles from OGS to the agencies assigned the vehicles. State agencies, now responsible for their vehicles' preventive maintenance and repair, use the fleet management services available from GECFS to carry out this responsibility.

Independent repair shops and garages in the GECFS network of service providers perform the actual repairs and maintenance service. Each repair shop provides the agency with a copy of the charges for the work performed, and sends another copy of these charges to GECFS. GECFS sends this bill to OGS, which forwards the statement to the agency for payment. The agency pays GECFS for the cost of the repair, as billed, and GECFS reimburses the repair shops. Some repair shops are GECFS "preferred vendors" who allow GECFS to withhold 10 percent of the repair's cost in exchange for business referrals.

During the contract term, OGS paid GECFS to provide fleet maintenance services for the State's 8,500 passenger vehicles. The contract also required OGS to pay GECFS a monthly administrative charge of \$1.50 per covered vehicle, averaging about \$127,600 annually. As of July 31, 1996, OGS had paid GECFS a total of \$9.8 million for repairs and administrative fees over the three-year period.

## City Comptroller

In the fall of 1994, the City's then Department of General Services (DGS), which is now part of the Department of Citywide Administrative Services (DCAS), presented a proposal to the City's Office of Labor Relations (OLR) to contract out its fleet repair and maintenance program with GECFS. OLR then formally notified the presidents of Locals 246 and 621 (both part of Service Employees International Union) of DCAS' intentions to contract out its vehicle maintenance services, which had been provided by DCAS' inhouse Bureau of Motor Vehicles (BMV). This notification also discussed redeploying 26 BMV employees.

DCAS prepared an analysis to determine whether it was cost-effective to contract with GECFS rather than to retain BMV. After approximately one year of discussions between the unions, OLR, and the Mayor's Office, a decision was made by the City on December 4, 1995, that DCAS would contract out with GECFS to

maintain its automotive fleet, which consists of approximately 857 vehicles.<sup>1</sup> Consequently, DCAS began using GECFS' services by issuing purchase orders against GECFS' contract with the State.

During fiscal year 1996, GECFS billed the City \$4.2 million for repair and maintenance charges in addition to \$98,900 for administration fees. The contract was to originally expire on July 31, 1996, but was extended to July 31, 1997. Since then, it has been extended on a month to month basis.

---

<sup>1</sup>DCAS' automotive fleet includes the fleets of 53 City agencies, including, for example, the Comptroller's Office, the Department for the Aging, and the Department of Buildings.

## Audit Scope, Objectives and Methodology

### State Comptroller

The State auditors examined the fleet management services provided by GECFS, and the monitoring of this contractor's performance by OGS and by State agencies that use GECFS services, for the three-year contract period ended July 31, 1996. The objectives of the State Comptroller's audit were to determine whether:

- GECFS adequately manages and controls costs associated with maintaining and repairing State vehicles; and
- OGS and other State agencies adequately evaluate GECFS' performance in deterring repair shop fraud and abuse.

To accomplish these objectives, the State auditors evaluated and tested the effectiveness of controls to prevent and detect questionable repair shop billings, including unnecessary, overpriced, and/or warrantied repairs. To do this, the State auditors obtained and analyzed data from the computerized repair history file maintained by GECFS.

The State auditors also focused their review on the specific repairs billed under the contract and on the practices GECFS follows, and the activities State agencies carry out, to monitor and control these repairs. Since the categories of repairs, the type of vehicles, and the pricing varied throughout the audit period, the State auditors selected some of the most common types of repairs (i.e., transmission, brake, battery, and starter) for review. The State auditors also contacted State agency officials to discuss their experiences with GECFS. In addition, the State auditors participated in a City Comptroller's controlled field test to determine whether GECFS vendors are performing and charging the State and City for unnecessary repairs.

## City Comptroller

The City Comptroller's audit scope covered fiscal year 1996 for the review and analysis of GECFS billing documents, and agency-related documents and fiscal year 1997 for fieldwork involving a controlled field test.

The objectives of the City Comptroller's audit were to determine whether:

- GECFS itself adheres to its contract, particularly with regard to monitoring unnecessary repairs.
- City agencies have adequate procedures to ensure that GECFS is in compliance with the terms of its contract.

To determine whether City agencies had adequate procedures to monitor GECFS' compliance with the terms of its contract, the City auditors randomly sampled 70 vehicles (10 vehicles at each City agency) from a total population of 2,319 City vehicles that had been serviced by GECFS during the fiscal year. In addition, the City auditors requested the GECFS' monthly billing statements and the supporting vendor invoices for the sampled vehicles from each agency.

To determine whether GECFS identified repeat repairs and evaluated repairs for potential warranty coverage, the City auditors analyzed, with the assistance of the State auditors, GECFS' computerized billing file pertaining to fiscal year 1996. This test focused on the following 10 of a total of 62 repair categories: alternators, batteries, radiators, starters, transmissions, windshield wipers, brakes, new tires, used tires, and towing.

During the three-month period February through April 1997, the State and City auditors conducted a controlled field test to determine whether GECFS' vendors bill the City for unnecessary repairs. The State and City auditors hired, as a consultant, a mechanic who operates a New York State licensed repair shop to pre-inspect and then "rig" functioning State

and City vehicles.<sup>2</sup> The consulting mechanic first inspected the vehicles to ensure that they were functioning properly. Once he determined that they were functioning properly, he completed pre-inspection forms for each vehicle, certifying this fact. Then, the mechanic rigged the vehicles by making an adjustment that could be easily detected and corrected by performing a minor repair. The mechanic also indicated the nature of the rig on the above-mentioned pre-inspection reports. The consulting mechanic also gave us a dollar estimate for the cost to repair the problem caused by the rigging. The State and City auditors then had the vehicles repaired by a GECFS vendor, obtained the invoice, and had the repairs examined by the consulting mechanic. When the consultant examined the vehicle, he determined which repairs were necessary and which were not. The consulting mechanic also noted this information on a post-inspection form.

The City auditors reviewed Quality Assurance Reports (QARs) prepared by NYPD mechanics to determine whether their post-inspections of work done by GECFS' vendors revealed any problems.

In addition, the City auditors reviewed the accuracy of the cost analysis utilized by DCAS to determine the cost-effectiveness of using GECFS as opposed to using DCAS' inhouse BMW automotive repair facility.

Finally, the City auditors reviewed the Department of Consumer Affairs Management Information System (CAMIS) to determine whether GECFS' vendors comply with the City's licensing rules and regulations. During this review, the auditors also determined whether these vendors had consumer complaints reported against them.

The City auditors conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included such tests of the records and other auditing procedures considered necessary. The auditors performed this audit in accordance with the City Comptroller's audit responsibilities as set forth in Section 93, Chapter 5, of the New York City Charter.

---

<sup>2</sup>In addition to operating a New York State licensed repair shop, the consultant mechanic selected by the State and City Comptrollers' Offices had the following qualifications: more than 30 years experience in the industry, graduation from vocational/technical school in automotive repair, no affiliation with GECFS or any of its vendors, and no outstanding violations or complaints registered with the New York City Department of Consumer Affairs.

EXECUTIVE SUMMARY:  
AUDIT SCOPE, OBJECTIVES AND  
METHODOLOGY, (CITY) CONT'D

## Results in Brief

### State Comptroller

State officials cannot be adequately assured that GECFS has effectively minimized the State's fleet repair costs. OGS officials have not formally assessed the quality of services provided by GECFS; consequently, they do not have sufficient assurance that the agreement with GECFS is functioning properly. Moreover, officials at several of the State agencies surveyed by the State auditors did not have adequate procedures to ensure that repairs billed by GECFS were necessary and appropriate. Because of weaknesses in the procedures used by GECFS and State agencies to monitor auto repairs, the auditors concluded that there is high risk that the State has paid significant amounts for unnecessary repair costs.

Similarly, the State auditors found that OGS management had not formally reviewed or evaluated the services provided by GECFS or the repairs provided by GECFS' subcontractors. OGS's activities are limited to receiving the monthly billings from GECFS and distributing these bills to the agencies.

The State auditors met with fleet managers at 10 selected State agencies with the larger vehicle fleets and found that there was a general absence of formal procedures to monitor the quality and cost of GECFS contract repairs. Three of the ten State agencies the auditors reviewed had adequate procedures to ensure that unnecessary vehicle repair costs were minimized. The remaining seven agencies rely on GECFS to evaluate and monitor the reasonableness of fleet repairs.

The State auditors' review of the vehicle repair and billing histories found evidence that GECFS has not effectively monitored the State's fleet repairs to ensure that warranty rights are exercised. For example, according to auto repair experts and parts suppliers, brake repairs are typically warrantied for 1 year or 12,000 miles. Yet, the State auditors identified 59 instances where a second brake job was billed within 1 year or 12,000 miles of a prior brake job.

Also, according to automotive repair experts the State auditors spoke with, a transmission overhaul

EXECUTIVE SUMMARY:  
RESULTS IN BRIEF,  
CONT'D (STATE)

should last the life of a vehicle. Yet, the State auditors found 49 transmission repairs (generally major overhauls), billed within 24 months of the last repair, at costs ranging from \$300 to \$1,800. The typical warranty on transmission repairs is 1 year or 12,000 miles. Among the 49 transmission repairs in question, the auditors found six instances where a second repair was billed within this warranty period.

Manufacturers generally warranty new and rebuilt starters for 1 year or 12,000 miles. However, the State auditors identified 39 instances when GECFS should have advised the agency to exercise warranty rights, but did not. The total amount billed for parts and labor on starter repairs for these 39 vehicles was \$7,127. In addition, manufacturers generally warranty passenger vehicle batteries for 48 to 60 months. However, the auditors found 115 vehicle batteries billed within 36 months of the last new battery installation, with little evidence of prorated credit for the batteries that were replaced.

With the assistance of a consultant, State and City auditors tested GECFS vendors to determine whether they performed and billed the State and City for unnecessary repairs. In three of the six tests involving State vehicles, GECFS vendors performed and billed the State Comptroller's Office for unnecessary work. For example, on one State vehicle, the consultant disconnected a sensor hose causing the vehicle to run rough and stall. The required repair was simply to reconnect the sensor hose at a cost of about \$45. However, the GECFS vendor unnecessarily replaced a logic module, which added \$151 to the bill.

## City Comptroller

During the audit the City auditors were told that all repairs over \$450 should involve a pre-inspection. For repairs under \$450, the City agencies were supposed to perform random pre-inspections. This pre-inspection requirement was developed to ensure that the repairs requested by the different City agencies and/or to be performed by GECFS vendors were actually necessary.

However, the City auditors found that only three City agencies--NYPD, DOT, and DCAS, which have their own inhouse vehicle maintenance functions--performed to a greater or lesser extent pre- and post-inspections of some of the work performed by GECFS' vendors. Proving the value of such inspections, NYPD found numerous problems with the repairs performed by GECFS' vendors. In some cases, NYPD found that GECFS' vendors billed the City for repairs not actually performed or for unnecessary repairs to its vehicles.

After a repair is made to a vehicle, the GECFS vendor provides the City agency driver with an invoice. A copy of this invoice is forwarded to GECFS. Every month GECFS issues a billing statement to each City agency for payment. This monthly billing statement contains the vehicle identification numbers, the dates the vehicles were serviced, a brief description of the services provided, and the related charges. Therefore, the invoices obtained from the vendors would enable the agencies to verify the appropriateness of the charges listed on the billing statements.

However, the City auditors found that fleet administrators at the seven City agencies did not have many of the invoices from the GECFS vendors to support payments for repairs. Specifically, the fleet administrators were unable to provide us with 130 (38 percent) of the 344 invoices pertaining to the repairs to the sampled vehicles.

Based on the review of GECFS' billing records, the City auditors also found that GECFS did not consistently monitor its vendors to prevent the City from being billed for duplicate repairs. As a result, the City paid for repairs that should have been covered under warranty agreement. In some cases, the City was billed for duplicate repairs only a few weeks after the initial repairs were performed.

Specifically, the City auditors reviewed the billing records for 10 repair categories.<sup>3</sup> For six of these ten repair categories, the City auditors identified 74 repeat repairs for which GECFS did not enforce the warranty agreement. Consequently, GECFS' failure to enforce the warranty agreement cost the City \$11,713. The following example helps illustrate the manner in which GECFS' failure to enforce warranty agreement resulted in additional costs to the City.

- On October 26, 1995, a GECFS vendor--Citywide Hi-Tech located at 3795 10th Avenue in Manhattan--installed a rebuilt starter costing \$115.22 in an NYPD vehicle (#94137B). Only 23 days later, on November 18, 1995, another GECFS vendor--Good Year Tire located at 166-15 Baisley Blvd in Jamaica, Queens, NY--installed a second rebuilt starter in the same vehicle and charged the City \$210.00. Again, 59 days later, on January 17, 1996, a third GECFS vendor--49th Street Auto Service located at 616 West 49th Street in Manhattan--installed a third rebuilt starter in the same vehicle and charged the City \$127.76. Overall, the City was charged \$452.98 for three rebuilt starters, all installed within the 90-day warranty period applying to the original repair.

Furthermore, the City Comptroller's controlled field test revealed that GECFS' preferred vendors frequently performed unnecessary repairs on City vehicles.

During the audit, City and State vehicles were brought to 26 GECFS vendors. The 26 vendors charged a total of \$4,527.12 for the repairs conducted during the tests. Of the 26 vendors, 14 charged \$2,310.49, or 51 percent of the total charges, for unnecessary repairs to the vehicles. For example:

- On March 26, 1997, the consulting mechanic rigged a Comptroller's Office vehicle (#39) by loosening the nuts attaching the wires to the alternator. According to the mechanic, this problem should have been corrected by simply tightening the nuts attaching the wires to the alternator, and by recharging the battery, which he estimated should cost approximately \$30.00. However, when this vehicle was

---

<sup>3</sup>Our review covered the following 10 repair categories: alternators, batteries, radiators, starters, transmissions, windshield wipers, brakes, new tires, used tires, and towing.

brought to the GECFS vendor--5K's Kar Kare, Inc., located at 8681 13th Avenue, Brooklyn, NY--the City was overcharged \$235.90 because the vendor unnecessarily replaced the alternator.

Based on the results of the controlled field tests, the City auditors estimate that the City paid GECFS \$1,095,964 for unnecessary repairs, out of the \$4.2 million in total billings to the City, during fiscal year 1996.<sup>4</sup>

The City auditors also found that, with the exception of DCAS, none of the remaining six City agencies asked for or obtained GECFS management reports, which contain useful fleet repair and maintenance data, and which are readily available as per the contract. These reports could have assisted the agencies in identifying repetitive and unnecessary repairs. As an alternative to using such reports, the auditors found that only one City agency, HPD, developed its own monitoring procedures to ensure that GECFS did not bill HPD for repetitive and unnecessary repairs.

Prior to using GECFS to maintain its automotive fleet, DCAS prepared an analysis to determine the cost-effectiveness of using GECFS instead of its City-operated automotive repair operation.

The City auditors found that DCAS' analysis did not take into account the costs associated with monitoring and enforcing the terms of the contract. This understated the costs associated with contracting-out the City's automotive maintenance and repair service to GECFS. In addition, the City auditors found that DCAS erroneously understated--by 414 vehicles--the number of vehicles serviced by its City-operated automotive repair operation prior to contracting-out. Consequently, the average maintenance cost per vehicle maintained by BMV was inflated by \$917. As a result of this error, the expected savings associated with the privatization project was inflated by about \$714,000.

These problems (understating the costs of contracting out and understating the number of vehicles previously serviced by DCAS) inflated the expected cost savings from retaining GECFS as the City's automotive maintenance and service provider.

Overall, this audit's findings illustrate how the lack of effective monitoring can impede the effectiveness of a privatization project--in this case the City's use of GECFS' Fleet Maintenance Program. Privatization is not a panacea, and, on its own, does not always reduce costs and/or improve services. The success of any privatization initiative depends greatly on

---

<sup>4</sup>Dollar amount based upon 123 charges from the GECFS vendors during our controlled field test. We are 95% confident that the City was charged between \$884,897 and \$1,307,032 for unnecessary repairs during fiscal year 1996. The point estimate is \$1,095,964. The sampling error is +/- 8.78%.

the quality of the City's management and oversight of the initiative. These issues are discussed in more detail in this report.

### **State Comptroller's Recommendations**

The State Comptroller makes 9 recommendations to OGS and the other State agencies to improve the administration of the fleet management contract, and to ensure that the State pays only for the automotive services it receives. Some of the recommendations are that State agencies using GECFS (or a new vendor) should:

- Require the contractor to provide the State with the written procedures the contractor's representatives must follow in processing repair requests and claims under the contract.
- Advise State agency staff to obtain copies of all repair shop invoices and reconcile the invoices to the monthly bill from the contractor.
- Require the contractor to document the procedures it uses to ensure that agency personnel are informed about the warranty privileges from prior repair work. OGS should also require the contractor to refer drivers to repair shops that warranty repairs for one year or longer.
- Advise State agencies about repair shops that perform and bill for unnecessary services. State agencies should also inform their staff about such repair shops so staff can avoid taking their vehicles to these locations.
- Advise agency personnel to track all prior approval for major repairs and match those repairs with the monthly billing to ensure that the contractor is obtaining appropriate prior approval from the agency before authorizing repair shops to do work.

## City Comptroller's Recommendations

The City Comptroller makes 16 recommendations to DCAS and the other City agencies to improve the administration of the GECFS contract (or new vendor), and to ensure that the City pays only for the automotive services it receives. Some of the recommendations are that City agencies using GECFS (or a new vendor) should:

- Obtain invoices from sub-vendors detailing the charges for parts and labor for all repairs performed, and compare the charges to the billing files to ensure that all charges are appropriate.
- Review the invoices to ensure that the parts and labor charges on the invoices are within industry standards. To accomplish this, the fleet administrators should use an industry estimating guide, such as the *Mitchell Mechanical Parts and Labor Estimating Guide*.
- Obtain management reports, which detail valuable information about the repairs performed on City vehicles. These reports could be used to identify repetitive and unnecessary repairs.
- Periodically obtain and review the vendor's electronic billing files to identify any repeat repairs that should have been covered under warranty agreement.

DCAS should:

- Ask the City's Law Department, in conjunction with the other City agencies that utilized GECFS' services, to consider pursuing an affirmative claim against GECFS to recover the projected \$1.1 million in charges for the unnecessary repairs as well as a portion of the monthly administrative charges for services it did not provide.
- Reevaluate the cost-effectiveness of using a vendor for the City's automotive repair and maintenance program, taking into consideration all costs related to administering the

contract, monitoring the results, and training and supervising contract personnel.

- Carefully review the audit's findings and incorporate, where applicable, all recommendations contained in this report in the new Request For Proposal (RFP) currently being prepared.

## Agency Response

### State Comptroller

The State auditors provided draft copies of this report to OGS officials for their review and formal comment. The auditors have considered officials' comments in preparing this report and have included some of them in the body of the report. A complete copy of the response is attached as Addendum I to this report. OGS officials generally agreed with the auditors' recommendations and advised that many of them have been incorporated into the newly negotiated contract.

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

### City Comptroller

Since this was a multi-City agency audit, the matters covered in this report were discussed with officials from the Department of Citywide Administrative Services, the New York City Police Department, the Human Resources Administration, the Department of Transportation, the Department of Finance, the Department of Housing Preservation and Development, and the Department of Homeless Services during, and at the conclusion of, this audit.

A preliminary draft report was sent to DCAS, NYPD, HRA, DOT, DOF, HPD, and DHS officials and was discussed at exit conferences coordinated by the Mayor's Office of Operations on August 8 and 12, 1997. After the exit conferences the City auditors submitted a draft report to DCAS, NYPD, HRA, DOT, DOF, HPD, and DHS officials with a request for comments. We received a lengthy written response from the Mayor's Office of Operation on February 3, 1998. A copy of the response (25 pages) minus the attachments submitted with the response is attached as Addendum II to this report. The attachments (36 pages) are available for review in our workpapers.

Given the length and detail of the agency response, which criticizes or disagrees with practically every aspect, finding and conclusion of the report, a person unfamiliar with the GECFS contract and the agencies' poor monitoring procedures might think that this audit does, indeed, suffer from the types of weaknesses and false assumptions that some of the agencies go to great length to describe. In fact, their response is so overwhelmingly critical that it even finds fault with some parts of the audit that already mirror their own position.

Faced with the stark contrast between the audit's findings and the agencies' response and seeing no middle-ground between the two, the casual reader could only conclude that either the auditors or the agencies completely "missed the boat" but would probably not be able to decide who did. To help the reader decide and in order to fairly present and fully discuss the agencies' position on the matters presented in this audit, a separate section has therefore been added at the end of this report, entitled "Discussion of Agency Response". As the reader reviews the results of this audit, he or she should bear in mind that some of the agencies strongly disagree with the audit's findings. Concurrently, the reader is advised that the Comptroller's Office does not believe that these agencies' arguments weaken the report's findings, but rather that they merely place some of them within a larger context. **After an in-depth review of the agencies' response, the Comptroller's Office has concluded that the agencies' arguments are invalid and unconvincing and that the audit's findings are correct.** Before forming a conclusion, the reader is encouraged to read the report, and then the "Discussion of the Agency Response" section which begins on page 80 of this report. A brief summary of that section follows below.

- The Mayor's Office of Operations questioned the audit use of the State specialized audit software, and the analysis of GECFS' computerized billing file. Specifically, it questioned the source of the billing file and whether a reliability test was performed on the file. In addition, the Mayor's Office of Operations claimed that the selection process used for the consultant mechanic was not explained in the report.

**Auditors' Comment:** We requested and obtained, from GECFS, a computerized billing file pertaining to automobile repairs billed to the City of New York during fiscal year 1996. Using the Audit Command Language (ACL) software obtained from the State we identified payments for duplicate repairs in the file. We confirmed the results of our tests with GECFS officials.

To obtain the services of our consultant mechanic, first we compared the list of GECFS preferred vendors in New York City to

the list of registered repair shops in New York City provided by the New York State Department of Motor Vehicles (DMV). Finally, we selected a vendor from the DMV list who were not on GECFS' preferred vendor list; had more than 30 years experience in the industry; and had no outstanding violations or complaints registered with the New York City Department of Consumer Affairs.

- Some agencies disagreed that they need to increase their monitoring of GECFS vendors. DCAS indicated that this would not be cost effective, and DOT claimed that its current pre- and post-inspection procedures are sufficient for determining whether repairs by GECFS vendors are necessary and adequately performed.

**Auditors' Comment:** While too much monitoring can certainly result in diminishing returns and fail to be cost-effective, too little monitoring-- which this audit has found to be the current practice-- will result in vendors charging for unnecessary services. We do not believe that DCAS and DOT's monitoring procedures are adequate. DCAS mostly ignores most repairs that cost under \$450 each, and DOT's inspections are too broad to be of value.

- DCAS disagreed that City agencies paid GECFS' vendors for repeat repairs. DCAS claimed that its review of the repairs described in this audit revealed that they were not repeat repairs.

**Auditors' Comment:** DCAS only responded to one of five instances of repeat repairs listed as examples in the report. To date, DCAS has not provided us with any documentation from GECFS or the vendor to prove its claim.

- The Mayor's Office of Operations disagreed that GECFS billed the City for unnecessary repairs. Specifically, the Mayor's Office of Operations claimed that the auditors disallowed many costs that were legitimate.

**Auditors' Comment:** We allowed all costs for repairs and services that our consultant mechanic considered necessary. For example, during the audit, the auditors brought a vehicle to a GECFS vendor to reconnect the MAP Sensor Vacuum Hose. Even though the vendor performed an unnecessary repair by replacing the MAP Sensor, the vendor received credit for performing an oil change because that item was reasonable and necessary.

- The Mayor's Office of Operations disagreed that agencies need to access and review the Department of Consumer Affairs (DCA) records to supplement their monitoring

procedures. Specifically, the Mayor's Office of Operations argued that the New York State Department of Motor Vehicles (DMV) is the entity that regulates vehicle maintenance, not DCA. It claimed that DCA only regulates towing and used car sales.

**Auditor's Comment:** While DCA does not regulate automotive repair shops, it does keep records of consumer complaints and violations regarding vendors in New York City, including automotive repair shops. We believe that City agencies can improve their monitoring of GECFS' vendors if they were to access DCA records to identify vendors with multiple complaints of unfair and unethical business practices.

- Some agencies disagreed that they need to review GECFS management reports to perform a trend analysis of their automotive repairs. Specifically, NYPD claimed that FAMIS and their own internal control procedures are sufficient, and less expensive to monitor fleet repair expenditures than using the GECFS Management Report. Another City agency, HPD, indicated that it has developed quarterly trend analyses which are the same as the GECFS management reports.

**Auditors' Comment:** Unlike NYPD's analysis of FAMIS data or HPD's quarterly review of GECFS invoices, GECFS management reports can provide the fleet administrators with the following important information:

- Exception Report: a report listing vehicles performing outside fleet standards;
- Vehicle Cost Report: a detailed maintenance history of each vehicle; and
- Fleet Cost and Analytical Report: a year-to-date summary of vehicle expenses and activity. This report lists the maximum mileage at which the vehicle will require more maintenance services. It also compares vehicle costs by make and model.

These reports are very easy to obtain and review. Therefore, the trend analyses of fleet repair and maintenance data contained in these reports could help NYPD and HPD identify repetitive and unnecessary repairs in a cost-effective manner.

- DCAS disagreed that its cost analysis was flawed. DCAS claimed that the analysis it used as the basis for contracting with GECFS was not predicated upon how many

vehicles were serviced by BMV in fiscal year 1995, but rather on how many vehicles would be serviced if BMV stayed open. Therefore, the audit finding that DCAS overstated its expected cost savings by not including all the vehicles serviced by BMV in fiscal year 1995 is inaccurate. DCAS also claimed that, contrary to the audit finding, its analysis included all applicable costs related to contracting out. DCAS concluded that any cost elements it might have omitted either favored contracting out or would have had no impact on its analysis.

**Auditors' Comments:** DCAS' cost analysis showed that it cost BMV an average of \$3,088 to service each vehicle during fiscal year 1995. (DCAS calculated this average by dividing the total cost of operating BMV during fiscal year 1995 [\$2,405,692] by 779, the number of vehicles it planned to contract out.)

However, the audit found that BMV serviced 1,193 vehicles during fiscal year 1995, 414 more than DCAS acknowledged in its cost analysis. By excluding these additional vehicles, DCAS inflated the expected saving associated with using GECFS by about \$714,000.

In addition, DCAS' cost analysis did not include the costs for monitoring the GECFS contract and any gain or loss associated with closing BMV.

In its response, DCAS claimed that these types of cost factors would have had no impact on the contracting out decision. That may be true, but our argument is not whether these cost factors favored or did not favor contracting out. What we reported on was the failure to include all relevant cost factors in the analysis.

We believe that a reader of a cost analysis should be able to assume that all cost factors are included in the analysis, not just those factors that the agency deems to be relevant.

## *Table of Contents*

<b>INTRODUCTION</b>	1
<b>BACKGROUND</b>	2
GECFS' Contract Requirement for the State and City	5
<b>AUDIT SCOPE, OBJECTIVE AND METHODOLOGY</b>	7
Coordination of Audit Work; Report Format	11
<b>AGENCY RESPONSE</b>	12
<b>FINDINGS AND RECOMMENDATIONS</b>	17
Summary of Findings	17
State and City Agencies Did Not Adequately Monitor GECFS and Its Vendors	21
Office of General Services and State Agencies Lack Monitoring Procedures	21
City Agencies Did Not Adequately Monitor GECFS and Its Vendors	24
City Agencies Did not Conduct Pre-Inspections	24
HRA, HPD, DHS and DOF Pre-Inspections	25
DOT Pre-Inspections	25
NYPD Pre-Inspections	26
DCAS Pre-Inspections	27
City Agencies Did not Conduct Post-Inspections	30
DOT Post-Inspections	30
NYPD Post-Inspections	31
DCAS Post-Inspections	32
DCAS Did Not Follow NYC Comptroller-Suggested Post-Inspection Process	32
<b>Conclusion: State and City</b>	34
<b>Recommendations: State and City</b>	35

## *Table of Contents*

Agencies Did Not Always Obtain or Reconcile Vendor Invoices Prior to Payment	36
State Agencies Did Not Reconcile Their Invoices to Monthly Billing Statements	36
City Agencies Did Not Always Obtain Vendor Invoices for Review Prior to Payment	37
<b>Conclusion: State and City</b>	39
<b>Recommendations: State and City</b>	39
GECFS' Own Files Show That The State and City Were Billed For Repeat Repairs	40
State Auditors Identify Payments for Repeat Repairs on State Vehicles in GECFS Billing Files	41
City Auditors Also Identify Payments for Repeat Repairs on City Vehicles in GECFS Billing Files	43
<b>Conclusion: State and City</b>	46
<b>Recommendations: State and City</b>	47
Auditors' Controlled Field Test Results: GECFS' Preferred Vendors Frequently Charge the State and City for Unnecessary Repairs	48
GECFS Vendors Performed Unnecessary Repairs On State Vehicles	49
GECFS Vendors Performed More than \$1 Million in Unnecessary Repairs	51
Additional Information Corroborating the Validity of the Controlled Field Test	55
<b>Conclusion: State and City</b>	58
<b>Recommendations: State and City</b>	58

## *Table of Contents*

<b>OTHER STATE AND CITY ISSUES</b>	59
NYPD Also Found Problems With GECFS' Vendors Including Billings for Unnecessary Repairs and Fraudulent Billings For Services Not Performed	59
GECFS Monitoring of Vehicle Repairs	62
GECFS Billing File Does Not Ensure Accurate or Consistent Repair Information	65
<b>Recommendation: State</b>	66
Department of Consumer Affairs' Records Show that GECFS' Preferred Vendors Have Numerous Consumer Violations and Complaints	67
<b>Recommendation: City</b>	70
City Agencies Did Not Obtain or Review GECFS Management Reports	71
Five of the Seven City Agencies Did Not Conduct Any Trend Analysis of Vehicle Repair Histories	72
<b>Recommendation: City</b>	72
DCAS' Cost Analysis Was Inaccurate	73
<b>Recommendation: City</b>	77
<b>CONCLUSION</b>	78
<b>DISCUSSION OF CITY AGENCY RESPONSE</b>	80
Attachment A	124
Attachment B	125
Attachment C	127
<b>ADDENDUM 1 - STATE AGENCY RESPONSE</b>	131
<b>ADDENDUM 2 - CITY AGENCY RESPONSE</b>	134

*The State of New York*  
*Office of the Comptroller*  
*Bureau of Management Audit*  
Audit # 96-S-076

*The City of New York*  
*Office of the Comptroller*  
*Bureau of Management Audit*  
Audit # ME96-179A

## **Audit Report on the State and City's Use of GE Capital Fleet Services for Automotive Maintenance and Repair**

---

### **INTRODUCTION**

On July 19, 1993, New York State's Office of General Services (OGS) entered into a three-year contract with GE Capital Fleet Services (GECFS), a subsidiary of General Electric Capital Corporation, to provide fleet management services for vehicle repair and maintenance. OGS contracted with GECFS for similar services during the previous three-year period.

In 1994, New York City agencies also began using GECFS services for City vehicles by issuing purchase orders for repair and maintenance against the State contract. Before 1994, the City used in-house services to maintain and repair its vehicles. GECFS acts as a facilitator in arranging for State and City vehicles to be serviced at any of its participating vendors within a network of independent garages and dealerships.

The contract required GECFS to coordinate the State's and the City's fleet maintenance and repair programs and to provide the necessary billing, payment, and record keeping services for the period August 1, 1993, to July 31, 1996. This contract, originally set to expire on July 31, 1996, was extended to July 31, 1997. Since then, it was extended on a month-to-month basis until March 31, 1998. Effective April 1, 1998, a new contractor, PHH, replaced GE Capital.

For the period August 1, 1993, through July 31, 1996, GECFS billed the State an average of \$3.3 million annually for repairs and administrative fees. For the New York City fiscal year ended June 30, 1996, GECFS billed the City \$4.2 million for repairs and \$98,900 for administrative fees.

## **BACKGROUND**

### **State Comptroller**

OGS signed its three-year contract with GECFS on July 19, 1993. In June 1993, the Division of the Budget transferred responsibility for managing State vehicles from OGS to the agencies to which the vehicles were assigned. State agencies, now responsible for their vehicles' preventive maintenance and repair, use the fleet management services available from GECFS to carry out this responsibility.

Independent repair shops and garages in the GECFS network of service providers perform the actual repairs and maintenance service. Each repair shop provides the agency employee with a copy of the charges for the work performed, and sends another copy of these charges to GECFS. GECFS sends this bill to OGS, which forwards the statement to the agency for payment. The agency pays GECFS for the cost of the repair, as billed, and GECFS reimburses the repair shops. Some repair shops are GECFS "preferred vendors" who allow GECFS to withhold 10 percent of the repair's cost in exchange for business referrals.

During the contract term, OGS paid GECFS to provide fleet maintenance services for the State's 8,500 passenger vehicles. The contract also required OGS to pay GECFS a monthly administrative charge of \$1.50 per covered vehicle, averaging about \$127,600 annually. As of July 31, 1996, OGS had paid GECFS a total of \$9.8 million for repairs and administrative fees over the three-year period.

### **City Comptroller**

In the fall of 1994, the City's then Department of General Services (DGS), which is now part of the Department of Citywide Administrative Services (DCAS), presented a proposal to the City's Office of Labor Relations (OLR) to contract out its fleet repair and maintenance program with GECFS. OLR then formally notified the presidents of Locals 246 and 621 (both part of Service Employees International Union) of DCAS' intentions to contract out its vehicle maintenance services, which had been provided by DCAS' inhouse Bureau of Motor Vehicles (BMV). This notification also discussed redeploying 26 BMV employees.

DCAS prepared an analysis to determine whether it was cost-effective to contract with GECFS rather than to retain BMV. After approximately one year of discussions between the unions, OLR, and the Mayor's Office, a decision was made by the City on December 4, 1995, that DCAS would contract out with GECFS to maintain its automotive fleet, which consists of approximately 857 vehicles.<sup>5</sup> Consequently, DCAS began using GECFS' services by issuing purchase orders against GECFS' contract with the State.

However, prior to this December 4, 1995, decision, DCAS decided that it would not service the vehicles of some agencies, according to an inter-departmental memorandum dated June 6, 1994. Specifically, the memo stated:

"The 400 vehicles from Human Resources Admin., Housing Preservation and Development, Juvenile Justice and Youth Services, need (if they so desire) to independently contract with G.E. Capital with no oversight responsibility [emphasis in original] from BMV."

On July 1, 1994, HRA issued its first purchase order for automotive service to be performed by a GECFS vendor. HPD issued its first purchase order on September 9, 1994. Similarly, the two other City agencies in our sample--the Department of Transportation (DOT) and the Department of Homeless Services (DHS)--issued purchase orders and began using GECFS vendors in the third week of July 1994. Finally, the Department of Finance (DOF) began using GECFS vendors when it merged with the Sheriff's Office in late July 1995.

Excluding the New York City Police Department (NYPD) and DOT, the remaining four agencies (HRA, HPD, DOF, and DHS), with a total of approximately 724 vehicles, used to have their vehicles serviced by the Department of Sanitation and DCAS' inhouse BMV. These agencies did not conduct a cost analysis to determine whether it was cost-effective to contract with GECFS.<sup>6</sup>

The New York City Police Department had 493 vehicles serviced by GECFS during fiscal year 1996. These 493 vehicles belonged to

---

<sup>5</sup>DCAS' automotive fleet includes the fleets of 53 City agencies, including ,for example, the Comptroller's Office, the Department for the Aging, and the Department of Buildings.

<sup>6</sup>It should be noted that at the Exit Conference DOF officials informed City auditors that it was not necessary for DOF to perform an independent cost analysis since this agency only began using GECFS vendors after it merged with the Sheriff's Office in July 1995. DOF officials stated that this cost analysis should have been performed by the Sheriff's Office.

the New York City Housing Authority Police, which merged with the New York City Police Department on April 30, 1995. The New York City Housing Authority Police had been using GECFS since February 1, 1994.<sup>7</sup>

During fiscal year 1996, the City paid GECFS \$2.50 per month for each vehicle in its maintenance program. According to GECFS' records, the City paid approximately \$98,900 in service charges during fiscal year 1996. This service charge is in addition to the \$4.2 million that the City paid GECFS for repairs and maintenance in fiscal year 1996; of that amount, GECFS forwarded about 90 percent to the vendors who actually performed the repairs, and retained about 10 percent as a processing fee.

During fiscal year 1996, GECFS provided repair and maintenance services to the following seven City agencies: the Human Resources Administration, the Department of Housing Preservation and Development, the Department of Homeless Services, Department of Finance, the Department of Transportation, the Department of Citywide Administrative Services, and the New York City Police Department.

---

<sup>7</sup>The New York City Police Department did not use GECFS vendors for repairing and maintaining its automotive fleet during our review period. Only vehicles that belonged to the former New York City Housing Authority Police were serviced by GECFS.

**GECFS' Contract Requirements for the State and City**

According to its contract with the State and City, GECFS is responsible for managing a preventive maintenance program and administering repair services; creating a uniform and accessible repair system; and providing a billing, payment, and record keeping system.

Specifically, GECFS' contract, states:

"The Maintenance Management Program provides a 24 hour, 7 day a week call center that is manned by over 60 qualified mechanical technicians. Our staff is trained to provide driver assistance, review past repair history (via an electronic database), negotiate repair requirements and provide authorization for repairs. They are fully qualified to diagnose and determine the proper cost of automotive repairs. Th[ese] services also include the following features:

- Emergency breakdown assistance
- Vendor locator assistance
- Comprehensive invoice audit and payment
- Complete repair history monitoring
- Warranty and policy adjustment monitoring
- Centralized billing and management reporting
- Dedicated Senior Vehicle Maintenance Leader for special repair assistance."

The contract also requires GECFS to identify repeat repairs and enforce the warranty agreement. Specifically, the contract states that GECFS will:

"Evaluate each repair on the vehicle for potential warranty coverage or post warranty/goodwill adjustments.

[Ensure that] repeat repairs will be identified, and service warranties will be identified and requested. Problems will be tracked and proper intervention utilized to ensure proper resolution."

Under the contract, GECFS is entitled to a per vehicle service charge, which varies depending on the number of vehicles in the fleet.

GECFS arranges for vehicle services to be performed at its participating independent vendors. GECFS solicits local repair shops to become GECFS vendors. In addition, repair shops can become GECFS vendors at the request of the State and City agencies,

provided that the vendors agree to abide by GECFS' billing procedures. In either case, GECFS does not perform any licensing checks or inspections of the vendors to determine whether they are equipped to perform certain types of repairs.

According to GECFS' Preferred Vendor Agreement, GECFS encourages all of its vendors to enter into such an agreement. By signing it, vendors agree to allow GECFS to retain a 10 percent processing fee on all invoices. In return, GECFS places the vendors on their Preferred Vendor Network. According to the Preferred Vendor Agreement, preferred vendors:

- receive repair referrals from GECFS on a preferred basis;
- are visually highlighted in GECFS' database and set apart from non-preferred vendors;
- have their invoices processed with priority and paid within 15 days of receipt; and
- are provided with a toll-free phone number to contact GECFS staff dedicated to answering their questions or addressing their concerns.

Whenever a State or City agency vehicle breaks down or requires repair services, the driver or the fleet coordinator is required to call GECFS' toll-free number, which is stored in the glove compartment of each vehicle.<sup>8</sup> GECFS is supposed to assist the driver in locating a GECFS vendor that is geographically close to the location of the vehicle. The vehicle may be driven or towed to the GECFS vendor. The vendor is then supposed to diagnose the problem and call GECFS' toll-free number for authorization to repair the vehicle.

After a repair is made to a vehicle, the GECFS vendor provides the agency driver with an invoice. A copy of this invoice is also forwarded to GECFS. Every month GECFS issues a billing statement to each agency for payment. This monthly billing statement contains the vehicle identification numbers, the dates that agency vehicles were serviced, a brief description of the services provided, and the related charges.

---

<sup>8</sup>At the Exit Conference held by the Mayor's Office of Operations and the City Comptroller's Office, NYPD and DOT officials claimed that whenever one of their vehicles breaks down or requires repair service, an NYPD or a DOT mechanic inspects the vehicle, determines the nature of the repair, and then calls GECFS' toll free number.

## AUDIT SCOPE, OBJECTIVE AND METHODOLOGY

### State Comptroller

The State auditors examined the fleet management services provided by GECFS, and the monitoring of this contractor's performance by OGS and by State agencies that use GECFS services, for the three-year contract period ended July 31, 1996. The objectives of the State Comptroller's audit were to determine whether:

- GECFS adequately managed and controlled costs associated with maintaining and repairing State vehicles, and
- OGS and other State agencies adequately evaluated GECFS' performance in deterring repair shop fraud and abuse.

To accomplish these objectives, the State auditors evaluated and tested the effectiveness of controls to prevent and detect questionable repair shop billings, including unnecessary, overpriced, and/or warrantied repairs. To do this, the State auditors obtained and analyzed data from the computerized repair history file maintained by GECFS.

The State auditors also focused their review on the specific repairs billed under the contract and on the practices GECFS follows, and the activities of the State agencies carry out, to monitor and control these repairs. Since the categories of repairs, the type of vehicles, and the pricing varied throughout the audit period, the State auditors selected some of the most common types of repairs (i.e., transmission, brake, battery, and starter) for review. The State auditors also contacted State agency officials to discuss their experiences with GECFS. In addition, the State auditors participated in a City Comptroller's controlled field test to determine whether GECFS vendors are performing and charging the State and City for unnecessary repairs.

The State auditors conducted the audit according to Generally Accepted Government Auditing Standards (GAGAS). Such standards require that the auditors plan the audit to adequately assess those State agency procedures and operations included within the audit scope. Further, these standards require that the auditors understand the State agencies' internal control system and compliance with those laws, rules, and regulations that are relevant to the State agencies' procedures and operations that are included in the audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the

accounting and operating records and applying such other auditing procedures as considered necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. The State auditors believe the audit provides a reasonable basis for their findings, conclusions, and recommendations.

The State auditors use a risk-based approach when selecting activities to be audited. This approach focuses the audit efforts on those procedures and operations that the auditors have identified through a preliminary survey as having the greatest probability of needing improvement. Consequently, by design, the State auditors use their finite audit resources to identify where and how improvements can be made. Thus, the auditors devote little audit effort to reviewing procedures and operations that may be relatively efficient or effective. As a result, reports are prepared on an "exception basis." The State sections of this report, therefore, highlight those areas needing improvement and do not address activities that may be functioning properly.

## City Comptroller

The City Comptroller's audit scope covered fiscal year 1996 for the review and analysis of GECFS billing documents, and agency-related documents, and fiscal year 1997 for fieldwork involving a controlled field test.

The objectives of the City Comptroller's audit were to determine whether:

- GECFS itself adheres to its contract, particularly with regard to monitoring unnecessary repairs.
- City agencies have adequate procedures to ensure that GECFS is in compliance with the terms of its contract.

To determine whether City agencies had adequate procedures to monitor GECFS' compliance with the terms of its contract, the City auditors interviewed the fleet administrators at each of the seven City agencies. Further, City auditors randomly sampled 70 vehicles (10 vehicles at each City agency) from a total population of 2,319 City vehicles that had been serviced by GECFS during the fiscal year. (At the City auditors request, each City agency provided the auditors with a list of vehicles serviced in fiscal year 1996). The City auditors requested the GECFS' monthly billing statements and the supporting vendor invoices for the sampled vehicles from each agency.

The City auditors reviewed the information pertaining to repairs charged to the City by GECFS. To determine whether GECFS identified repeat repairs and evaluated repairs for potential warranty coverage, the City auditors analyzed, with the assistance of the State auditors, GECFS' computerized billing file pertaining to fiscal year 1996. This file contained the vehicle numbers, the dates and descriptions of services provided, the names of the vendors, the repair codes and related charges, and the vendors' billing dates. This test focused on the following 10 of a total of 62 repair categories: alternators, batteries, radiators, starters, transmissions, windshield wipers, brakes, new tires, used tires, and towing.

During the three-month period February through April 1997, the State and City auditors conducted a controlled field test to determine whether GECFS' vendors bill the City for unnecessary repairs. The State and City auditors hired, as a consultant, a mechanic who operates a New York State licensed repair shop to pre-

inspect and then "rig" functioning State and City vehicles.<sup>9</sup> The consulting mechanic first inspected the vehicles to ensure that they were functioning properly. Once he determined that they were functioning properly, he completed pre-inspection forms for each vehicle, certifying this fact. Then, the mechanic rigged the vehicles by making an adjustment that could be easily detected and corrected by performing a minor repair. The mechanic also indicated the nature of the rig on the above-mentioned pre-inspection reports. The consulting mechanic also gave us a dollar estimate for the cost to repair the problem caused by the rigging. The State and City auditors then had the vehicles repaired by a GECFS vendor, obtained the invoice, and had the repairs examined by the consulting mechanic. When the consultant examined the vehicle, he determined which were necessary and which were not. The consulting mechanic also noted this information on a post-inspection form.

The City auditors reviewed Quality Assurance Reports (QARs) prepared by NYPD mechanics to determine whether their post-inspections of work done by GECFS' vendors revealed any problems. In addition, the City auditors reviewed the accuracy of the cost analysis utilized by DCAS to determine the cost-effectiveness of using GECFS as opposed to using DCAS' inhouse BMV automotive repair facility.

Finally, the City auditors reviewed the Department of Consumer Affairs Management Information System (CAMIS) to determine whether GECFS' vendors comply with the City's licensing rules and regulations. During this review, the auditors also determined whether these vendors had consumer complaints reported against them.

The City auditors conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included such tests of the records and other auditing procedures considered necessary. The auditors performed this audit in accordance with the City Comptroller's audit responsibilities as set forth in Section 93, Chapter 5, of the New York City Charter.

---

<sup>9</sup>In addition to operating a New York State licensed repair shop, the consultant mechanic selected by the State and City Comptrollers' Offices had the following qualifications: more than 30 years experience in the industry, graduation from vocational/technical school in automotive repair, no affiliation with GECFS or any of its vendors, and no outstanding violations or complaints registered with the New York City Department of Consumer Affairs.

## Coordination of Audit Work; Report Format

This audit of GECFS was conducted concurrently by the New York State Comptroller's Office and the New York City Comptroller's Office. The results of both the audits are merged in this joint NYS/NYC Comptrollers' report.

During the course of the audit, staff of the State and City Comptrollers' Offices met to develop and coordinate the audit methodologies. They also determined the format for reporting the State and City's findings. In each section of this joint report, the findings and recommendations are organized as follows:

- a detailed description of State findings,
- a detailed description of City findings,
- a combined conclusion,
- State recommendation(s), and
- City recommendation(s).

Following the sections where State and City findings of a similar nature are reported together, other sections describe the findings and recommendations developed separately by the State and City auditors, resulting from their specific audit tests.

The State auditors assisted the City auditors during the review of GECFS' billing files by using the State's specialized audit software. In addition, the State Comptroller's Office participated in the City auditors' controlled field test of the work quality of GECFS vendors, which is discussed in more detail in the methodology section of this report.

Specifically, the State Comptroller's Office assisted the City auditors in deciding which vendors to include in the controlled field test and by providing resources (i.e., staff, vehicles, and repair funds). These additional resources allowed the City auditors to expand the test to maximize the use of the limited resources available to both Comptrollers.

The City auditors were concerned that the limited number of City Comptroller's vehicles available would have required the auditors to bring the same vehicle to many GECFS vendors during the testing period. This might have enabled GECFS or its vendors to detect the controlled field test before the City auditors had visited the number of vendors required to project the financial implications of the City auditors' findings in a valid statistical manner.

In this connection, the additional vehicles provided by the State Comptroller's Office allowed the City auditors to complete a statistical sample of vendors during the review.

**AGENCY RESPONSE****State Comptroller**

The State auditors provided draft copies of this report to State OGS officials for their review and formal comment. The auditors have considered officials' comments in preparing this report and have included some of them in the body of the report. A complete copy of the response is attached as Addendum I to this report. OGS officials generally agreed with the auditors' recommendations and advised that many of them have been incorporated in the newly negotiated contract. Effective April 1998, the State has a new vendor for vehicle fleet management services.

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

**City Comptroller**

Since this was a multi-City agency audit, the matters covered in this report were discussed with officials from the Department of Citywide Administrative Services, the New York City Police Department, the Human Resources Administration, the Department of Transportation, the Department of Finance, the Department of Housing Preservation and Development, and the Department of Homeless Services during, and at the conclusion of, this audit.

A preliminary draft report was sent to DCAS, NYPD, HRA, DOT, DOF, HPD, and DHS officials and was discussed at exit conferences coordinated by the Mayor's Office of Operations on August 8 and 12, 1997. After the exit conferences the City auditors submitted a draft report to DCAS, NYPD, HRA, DOT, DOF, HPD, and DHS officials with a request for comments. We received a lengthy written response from the Mayor's Office of Operations on February 3, 1998. A copy of the response (25 pages) minus the attachments submitted with the response is attached as Addendum II to this report. The attachments (36 pages) are available for review in our workpapers.

Given the length and detail of the agency response, which criticizes or disagrees with practically every aspect, finding and conclusion of the report, a person unfamiliar with the GECFS

contract and the agencies' poor monitoring procedures might think that this audit does, indeed, suffer from the types of weaknesses and false assumptions that some of the agencies go to great length to describe. In fact, their response is so overwhelmingly critical that it even finds fault with some parts of the audit that already mirror their own position.

Faced with the stark contrast between the audit's findings and the agencies' response and seeing no middle-ground between the two, the casual reader could only conclude that either the auditors or the agencies completely "missed the boat" but would probably not be able to decide who did. To help the reader decide and in order to fairly present and fully discuss the agencies' position on the matters presented in this audit, a separate section has therefore been added at the end of this report, entitled "Discussion of Agency Response". As the reader reviews the results of this audit, he or she should bear in mind that some of the agencies strongly disagree with the audit's findings. Concurrently, the reader is advised that the Comptroller's Office does not believe that these agencies' arguments weaken the report's findings, but rather that they merely place some of them within a larger context. **After an in-depth review of the agencies' response, the Comptroller's Office has concluded that the agencies' arguments are invalid and unconvincing and that the audit's findings are correct.** Before forming a conclusion, the reader is encouraged to read the report, and then the "Discussion of the Agency Response" section which begins on page 80 of this report. A brief summary of that section follows below.

- The Mayor's Office of Operations questioned the audit use of the State specialized audit software, and the analysis of GECFS' computerized billing file. Specifically, it questioned the source of the billing file and whether a reliability test was performed on the file. In addition, the Mayor's Office of Operations claimed that the selection process used for the consultant mechanic was not explained in the report.

**Auditors' Comment:** We requested and obtained, from GECFS, a computerized billing file pertaining to automobile repairs billed to the City of New York during fiscal year 1996. Using the ACL software obtained from the State we identified payments for duplicate repairs in the file. We confirmed the results of our tests with GECFS officials.

To obtain the services of our consultant mechanic, first we compared the list of GECFS preferred vendors in New York City to the list of registered repair shops in New York City provided by the New York State Department of Motor Vehicles (DMV). Finally, we selected a vendor from the DMV list who were not on GECFS' preferred vendor list; had more than 30 years experience in the industry; and had no outstanding violations or complaints registered with the New York City Department of Consumer Affairs.

- Some agencies disagreed that they need to increase their monitoring of GECFS vendors. DCAS indicated that this would not be cost effective, and DOT claimed that its current pre- and post-inspection procedures are sufficient for determining whether repairs by GECFS vendors are necessary and adequately performed.

**Auditors' Comment:** While too much monitoring can certainly result in diminishing returns and fail to be cost-effective, too little monitoring-- which this audit has found to be the current practice-- will result in vendors charging for unnecessary services. We do not believe that DCAS and DOT's monitoring procedures are adequate. DCAS mostly ignores most repairs that cost under \$450 each, and DOT's inspections are too broad to be of value.

- DCAS disagreed that City agencies paid GECFS' vendors for repeat repairs. DCAS claimed that its review of the repairs described in this audit revealed that they were not repeat repairs.

**Auditors' Comment:** DCAS only responded to one of five instances of repeat repairs listed as examples in the report. To date, DCAS has not provided us with any documentation from GECFS or the vendor to prove its claim.

- The Mayor's Office of Operations disagreed that GECFS billed the City for unnecessary repairs. Specifically, the Mayor's Office of Operations claimed that the auditors disallowed many costs that were legitimate.

**Auditors' Comment:** We allowed all costs for repairs and services that our consultant mechanic considered necessary. For example, during the audit, the auditors brought a vehicle to a

GECFS vendor to reconnect the MAP Sensor Vacuum Hose. Even though the vendor performed an unnecessary repair by replacing the MAP Sensor, the vendor received credit for performing an oil change because that item was reasonable and necessary.

- The Mayor's Office of Operations disagreed that agencies need to access and review the Department of Consumer Affairs (DCA) records to supplement their monitoring procedures. Specifically, the Mayor's Office of Operations argued that the New York State Department of Motor Vehicles (DMV) is the entity that regulates vehicle maintenance, not DCA. It claimed that DCA only regulates towing and used car sales.

**Auditor's Comment:** While DCA does not regulate automotive repair shops, it does keep records of consumer complaints and violations regarding vendors in New York City, including automotive repair shops. We believe that City agencies can improve their monitoring of GECFS' vendors if they were to access DCA records to identify vendors with multiple complaints of unfair and unethical business practices.

- Some agencies disagreed that they need to review GECFS management reports to perform a trend analysis of their automotive repairs. Specifically, NYPD claimed that FAMIS and their own internal control procedures are sufficient, and less expensive to monitor fleet repair expenditures than using the GECFS Management Report. Another City agency, HPD, indicated that it has developed quarterly trend analyses which are the same as the GECFS management reports.

**Auditors' Comment:** Unlike NYPD's analysis of FAMIS data or HPD's quarterly review of GECFS invoices, GECFS management reports can provide the fleet administrators with the following important information:

- Exception Report: a report listing vehicles performing outside fleet standards;
- Vehicle Cost Report: a detailed maintenance history of each vehicle; and

- Fleet Cost and Analytical Report: a year-to-date summary of vehicle expenses and activity. This report lists the maximum mileage at which the vehicle will require more maintenance services. It also compares vehicle costs by make and model.

These reports are very easy to obtain and review. Therefore, the trend analyses of fleet repair and maintenance data contained in these reports could help NYPD and HPD identify repetitive and unnecessary repairs in a cost-effective manner.

- DCAS disagreed that its cost analysis was flawed. DCAS claimed that the analysis it used as the basis for contracting with GECFS was not predicated upon how many vehicles were serviced by BMV in fiscal year 1995, but rather on how many vehicles would be serviced if BMV stayed open. Therefore, the audit finding that DCAS overstated its expected cost savings by not including all the vehicles serviced by BMV in fiscal year 1995 is inaccurate. DCAS also claimed that, contrary to the audit finding, its analysis included all applicable costs related to contracting out. DCAS concluded that any cost elements it might have omitted either favored contracting out or would have had no impact on its analysis.

**Auditors' Comment**: DCAS' cost analysis showed that it cost BMV an average of \$3,088 to service each vehicle during fiscal year 1995. (DCAS calculated this average by dividing the total cost of operating BMV during fiscal year 1995 [\$2,405,692] by 779, the number of vehicles it planned to contract out.)

However, the audit found that BMV serviced 1,193 vehicles during fiscal year 1995, 414 more than DCAS acknowledged in its cost analysis. By excluding these additional vehicles, DCAS inflated the expected saving associated with using GECFS by about \$714,000.

In addition, DCAS' cost analysis did not include the costs for monitoring the GECFS contract and any gain or loss associated with closing BMV.

In its response, DCAS claimed that these types of cost factors would have had no impact on the contracting out decision. That may be true, but our argument is not whether these cost factors favored

or did not favor contracting out. What we reported on was the failure to include all relevant cost factors in the analysis. We believe that a reader of a cost analysis should be able to assume that all cost factors are included in the analysis, not just those factors that the agency deems to be relevant.

## FINDINGS AND RECOMMENDATIONS

### Summary of Findings

#### State Comptroller

OGS contracted with GECFS for fleet services in order to minimize the cost of maintaining and repairing State passenger vehicles. However, OGS and other State agency officials have little assurance that GECFS has actually minimized these costs. The State auditors found that:

- the GECFS database of vehicle information is not always accurate;
- OGS officials have not formally assessed the quality of services provided by GECFS;
- OGS's activities are limited to receiving the monthly billings from GECFS and distributing these bills to the agencies;
- the State agencies surveyed did not have adequate procedures to ensure that repairs billed by GECFS were necessary and appropriate; and
- controlled tests at a judgmental sample of repair shops resulted in vendors performing unnecessary repairs on three of six State vehicles.

Because of weaknesses in the procedures used by GECFS and State agencies to monitor auto repairs, the State auditors conclude there is high risk that the State has paid significant amounts for unnecessary repair costs.

The State auditors' met with fleet managers at ten selected State agencies with the larger vehicle fleets and found that there was a general absence of formal procedures to monitor the quality and cost of GECFS contract repairs. Three of the ten State agencies the auditors reviewed had adequate procedures to ensure that unnecessary vehicle repair costs were minimized. The remaining seven agencies rely on GECFS to evaluate and monitor the reasonableness of fleet repairs.

The State auditors' review of the vehicle repair and billing histories found evidence that GECFS has not effectively monitored

the State's fleet repairs to ensure that warranty rights are exercised. For example, according to auto repair experts and parts suppliers, brake repairs are typically warrantied for 1 year or 12,000 miles. Yet, the auditors identified 59 instances where a second brake job was billed within 1 year or 12,000 miles of a prior brake job.

Also, according to automotive repair experts the State auditors spoke with, a transmission overhaul should last the life of a vehicle. Yet, the auditors found 49 transmission repairs (generally major overhauls), billed within 24 months of the last repair, at costs ranging from \$300 to \$1,800. The typical warranty on transmission repairs is 1 year or 12,000 miles. Among the 49 transmission repairs in question, the auditors found six instances where a second repair was billed within this warranty period. Also, there were four transmission repairs billed shortly after the warranty expired. In these cases, GECFS could have requested the repair shop to honor the warranty. The amount billed for these ten repairs was about \$8,900.

Manufacturers generally warranty new and rebuilt starters for 1 year or 12,000 miles. However, the State auditors identified 39 instances when GECFS should have advised the agency to exercise warranty rights, but did not. The total amount billed for parts and labor on starter repairs for these 39 vehicles was \$7,127. In addition, manufacturers generally warranty passenger vehicle batteries for 48 to 60 months. However, the auditors found 115 vehicle batteries billed within 36 months of the last new battery installation, with little evidence of prorated credit for the batteries that were replaced.

With the assistance of a consultant, State and City auditors tested GECFS vendors to determine whether they performed and billed the State and City for unnecessary repairs. In three of the six tests involving State vehicles, GECFS vendors performed and billed the State Comptroller's Office for unnecessary work. For example, on one State vehicle, the consultant disconnected a sensor hose causing the vehicle to run rough and stall. The required repair was simply to reconnect the sensor hose. The consultant estimated that such a repair should cost about \$45. However, the GECFS vendor unnecessarily replaced a logic module, which added \$151 to the bill. On another State vehicle, the consultant misadjusted the gap on a spark plug, which caused the vehicle to run rough. The only repair required was to properly gap the malfunctioning spark plug.

However, the repair shop unnecessarily replaced a coolant sensor and a fuel filter, which added \$110 to the bill.

## City Comptroller

The City auditors found that only three City agencies--NYPD, DOT, and DCAS, which have their own inhouse vehicle maintenance functions--performed to a greater or lesser extent pre- and post-inspections of some of the work performed by GECFS' vendors. Proving the value of such inspections, NYPD found numerous problems with the repairs performed by GECFS' vendors. In some cases, NYPD found that GECFS' vendors billed the City for repairs not actually performed or for unnecessary repairs to its vehicles. (NYPD's inspection results are discussed in more detail in a separate section of this report.)

The City auditors also found that the fleet administrators at the seven City agencies did not always obtain invoices from GECFS' vendors. Such invoices would have enabled the agencies to verify the appropriateness of GECFS' charges.

Similarly, the City auditors review of GECFS' billing files determined that the City was billed for repetitive repairs that should have been typically covered under the warranty agreement. GECFS should have identified these repetitive repairs and directed the City agency to the vendor who made the initial repair. This would have ensured that the charges for the repetitive repairs were covered by the initial vendors under the warranty agreement. In addition, even though GECFS failed to identify these repeat repairs, the City agencies could have identified them if they had reviewed the repair data contained in the GECFS management reports that were available upon request. However, since the City agencies never obtained or reviewed these management reports from GECFS, they could not take advantage of the cost savings available under the warranty agreement.

Furthermore, the controlled field test results lead the State and City Comptrollers' Office to conclude that GECFS' vendors frequently billed the State and City for unnecessary repairs on State and City vehicles. Based on the results of the tests, the City auditors estimate that the City paid GECFS \$1,095,964 for unnecessary repairs, out of the \$4.2 million in total billings to the City, during fiscal year 1996.<sup>10</sup>

---

<sup>10</sup>Dollar amount based upon 123 charges from the GECFS vendors during our controlled field test. We are 95% confident that the City was charged between \$884,897 and \$1,307,032 for unnecessary repairs during fiscal year 1996. The point estimate is \$1,095,964. The sampling error is +/- 8.78%.

The City auditors also found that, with the exception of DCAS, none of the remaining six City agencies asked for or obtained GECFS management reports, which contain useful fleet repair and maintenance data, and which are readily available as per the contract. These reports could have assisted the agencies in identifying repetitive and unnecessary repairs. As an alternative to using such reports, the auditors found that only one City agency, HPD, developed its own monitoring procedures to ensure that GECFS did not bill HPD for repetitive and unnecessary repairs.

Prior to using GECFS to maintain its automotive fleet, DCAS prepared an analysis to determine the cost-effectiveness of using GECFS instead of its City-operated automotive repair operation. The City auditors found that DCAS' analysis did not take into consideration all the costs associated with monitoring and enforcing the terms of the contract. In addition, DCAS erroneously understated the number of vehicles serviced by DCAS' inhouse BMV prior to contracting-out; this inflated, by about \$714,000, the cost savings expected by DCAS through privatizing and contracting-out the City's repair and maintenance program to GECFS.

Overall, the City Comptroller's audit illustrates how the lack of effective monitoring can impede the effectiveness of a privatization project--in this case the City's use of GECFS' Fleet Maintenance Program. Privatization is not a panacea, and, on its own, does not always reduce costs and/or improve services. The success of any privatization initiative depends greatly on the quality of the City's management and oversight of the initiative. These issues are discussed in more detail in this report.

The next sections of this report discuss in detail the findings of the State and City Comptrollers' offices.

## **State and City Agencies Did Not Adequately Monitor GECFS and Its Vendors**

### **State Comptroller's Findings**

#### **Office of General Services and State Agencies Lack Monitoring Procedures**

According to *OSC Procurement and Disbursement Guidelines: Monitoring of Contracts (Bulletin No. G-67)*, every State agency should have a system to monitor a contractor's performance towards stated contract goals and objectives, and to evaluate the contractor's performance. The purpose of the system is to determine whether all services paid by the State are delivered in accordance with the contract, and in an acceptable manner. Also, the contract states periodic evaluation will be conducted by the State to assist in determining the adequacy of the contractor's performance.

The State auditors' found that OGS management had not formally reviewed or evaluated the services provided by GECFS or the repairs provided by GECFS' subcontractors. According to OGS officials, the State agencies are primarily responsible for reviewing and evaluating the repair services delivered under the contract since ownership of State vehicles resides with the agencies. Currently, OGS's activities are limited to receiving the monthly billings from GECFS and distributing them to the agencies.

The State auditors met with fleet managers at ten selected State agencies with the larger vehicle fleets and found that there was a general absence of formal procedures to monitor the quality and cost of GECFS contract repairs. A summary of our assessment of State agency monitoring procedures is presented in the following table.

**TABLE I**

Agency Evaluation of Monitoring Procedures

General Evaluation of Monitoring:	# of Agencies
No Monitoring	3
Limited Monitoring	2
Decentralized Operations - Inconsistent	2
Adequate Monitoring	3
<b>Total</b>	<b>10</b>

As illustrated by the table, three of the ten State agencies reviewed by the State auditors had adequate procedures to ensure that unnecessary vehicle repair costs were minimized. However, agency fleet managers generally informed the auditors that they perform little or no review of the GECFS monthly repair shop billings. Rather, they rely on GECFS to evaluate and monitor the reasonableness of fleet repairs.

The reasons why State agency fleet managers performed limited monitoring are that the managers:

- believe GECFS is doing a good job providing fleet services because vehicles are receiving timely repair services, and
- do not generally have the automotive repair experience needed to evaluate whether the repairs are needed and whether they are reasonably priced.

The terms of the GECFS contract also contributed to the lack of monitoring. For example, the contract does not:

- describe the standards and/or criteria for measuring the contractor's performance, and
- require the contractor to produce routine management performance reports (e.g. cost saving reports, utilization reports, and exception reports).

Without adequate reporting from the contractor, State agencies do not have the information needed to assess whether the GECFS

contract is providing quality motor vehicle repairs at reasonable prices.

**Agency Response:**

In their response to the draft report, OGS officials indicated that they included a provision in the new fleet management contract that requires the contractor to provide the State with documentation of the procedures the contractor will use to process repair requests and claims.

OGS officials also indicated, however, that they would not formally assess the contractor's performance unless complaints from State user agencies indicated that there was a need for a formal performance assessment. Nonetheless, we maintain that periodic formal assessment of the contractor's performance would be appropriate, given the deficiencies we detail in this report. OGS officials also indicated that they would consider using a customer satisfaction survey with the new contract, if it was warranted by the complaints made by the user agencies.

## **City Comptroller's Findings**

### **City Agencies Did Not Adequately Monitor GECFS and Its Vendors**

The GECFS contract states: "[GECFS] shall have no liability for any goods or services provided by any third party or independent contractor." Given these terms, City agencies that utilize GECFS for automotive services need to have adequate procedures to monitor GECFS and its vendor to assure they are paying for necessary and/or actual repairs.

The City auditors found that most of the City agencies that utilize GECFS' services do not have adequate procedures to monitor GECFS' performance in meeting its contractual obligations, and therefore have no assurance that the amounts paid to GECFS' vendors are for necessary and/or actual repairs.

The City auditors' review disclosed that four of the seven City agencies never conducted pre- or post-inspections of vehicles repaired by GECFS vendors. Such pre- and post-inspections can ensure that repairs are necessary, and that the GECFS vendors actually performed them. In addition, the auditors noted that, except for the NYPD, the other six City agencies did not conduct any ongoing trend analyses, which would involve at least a monthly or quarterly review of the repair histories of the vehicles to identify any unusual or repetitive repairs. (It should be noted that HPD did conduct a year-end trend analysis; however, we continue to maintain that only a more frequent trend analysis will be effective in monitoring the GECFS vendors. The lapse of several months between the date of the repair and the date of review, combined with a sole year-end review, makes it very difficult to identify unnecessary repairs.) These issues are discussed in greater detail in the following sections of this report.

### **City Agencies Did Not Conduct Pre-inspections**

During the City auditors' preliminary visits to the seven City agencies that use GECFS for automotive repairs and maintenance, the auditors were told that all repairs over \$450 should involve a pre-inspection. For repairs under \$450, the City agencies were supposed to perform random pre-inspections. This pre-inspection requirement was developed to ensure that the repairs requested by

FINDINGS AND RECOMMENDATIONS:  
MONITORING OF GECFS AND  
ITS VENDORS, CONT'D (CITY)

the different City agencies and/or to be performed by GECFS vendors were actually necessary. However, the City auditors noted that

four of the seven City agencies did not conduct pre-inspections. Another City agency's (DOT) pre-inspection reports, titled GE Vendor Authorization Forms, were very general and did not describe the specific repairs needed. The remaining two City agencies, DCAS and NYPD, did provide the auditors with detailed pre-inspection reports for the repairs performed on their vehicles.

A pre-inspection report involves a City mechanic (or designee) diagnosing the problem and repairs necessary to return the vehicle back to service. The seven City agencies are supposed to perform pre-inspections on all their vehicles for repairs over \$450; for repairs under \$450, these City agencies are supposed to randomly select some vehicles for pre-inspection.

Two of the seven City agencies in the sample, DOT and NYPD, perform the pre-inspection of their vehicles in their own repair shops before sending the vehicles to a GECFS vendor.<sup>11</sup> Another City agency, DCAS, performs pre-inspections of its vehicles at the GECFS vendor's repair shop. As stated earlier, the remaining four City agencies did not comply with the pre-inspection requirement. Since these four City agencies did not have inhouse automotive mechanics, DCAS agreed that, whenever possible, its automotive inspectors would assist them in performing pre-inspections. (After the Exit Conference, DOF officials promised to provide us with a memorandum detailing their request to DCAS for pre-inspection assistance. The City Auditors received this memo on September 17, 1997.)

The following sections discuss the pre-inspection activities of the seven City agencies and the results of those inspections. The City auditors review disclosed that only NYPD had an effective pre-inspection program that provided reasonable assurance that the City only paid for warranted and necessary repairs.

HRA, HPD, DHS, and DOF Pre-Inspections. As noted earlier, four (HRA, HPD, DHS, and DOF) of the seven City agencies did not conduct pre-inspections of their vehicles to ensure that the repairs proposed by the GECFS vendors were necessary.

DOT Pre-Inspections. DOT claimed that it did pre-inspections for all vehicle repairs, both over and under \$450. The City auditors determined that, in their sample, DOT had a total of 14 repairs over \$450 and 34 repairs under \$450. However, according to

---

<sup>11</sup>It should be noted that in a few instances, a GECFS vendor might identify a problem in the vehicle which is not indicated on the pre-inspection report. In these cases, DOT and NYPD send one of their mechanics to the GECFS vendor to verify the need for this additional repair.

the documentation provided to us, DOT only did pre-inspection reports for 6 of the 14 repairs over \$450, and for 15 of the 34 repairs under \$450. Furthermore, the pre-inspection reports for these repairs were very general and did not describe the specific repairs needed to return the vehicle back to service. DOT officials stated they performed these "general" pre-inspections as part of the process for authorizing GECFS vendors to repair vehicles--not to ensure that the repairs made were necessary. (After the exit conference, DOT officials provided the auditors with a printout from a computerized database (Fleet Administration and Management Information System--FAMIS) to show that their inspections were thorough and complete. However, the auditors' review of this computer printout indicated that the inspections were very general and did not describe the specific repairs needed.)

NYPD Pre-Inspections. NYPD officials stated that they were supposed to perform pre-inspections of all repairs--over \$450 as well as under \$450. However, the City auditors were unable to determine from their review of NYPD's pre-inspection reports whether they pertained to repairs over or under \$450. During the their review, the City auditors noted that NYPD performed 131 pre-inspections. These reports were more thorough and comprehensive than the pre-inspection reports provided by DOT.

For every vehicle that requires maintenance or repairs, an NYPD staff person first checks FAMIS to determine whether the requested repairs were performed in the recent past. If there is a record of a similar repair having been performed recently, the NYPD inspector will determine whether the previous repair was done properly and whether the present repair should be covered under a warranty agreement. If there is no record of a similar repair, an NYPD inspector then examines the vehicle to determine the legitimacy of the requested repair. If the inspector finds the repair necessary, he/she authorizes the GECFS vendor to proceed.

For example, the pre-inspection report dated January 2, 1996, for vehicle #9290, a 1993 Chevrolet, stated the following:

"Reason for Repair: Normal wear, spot, headlights flashes, RS align, lite out, check eng lite on, no siren at steering wheel.

"Results of Inspection: Vehicle not yet in progress at Fleet Auto. Upon inspection of work order, found different vendor possibly did same repair on December 28. See work order HR 1015. Call Police Officer Rice at HBFMS and requested Fleet not release vehicle until

Supervisor Auto Mechanic Cleary inspect vehicle. Also Lapina Monaco did wheel alignment, will check.  
"Follow up: Inspect vehicle after completion at Fleet. Requested vehicle not be released until inspection."

The thoroughness of this pre-inspection enabled the NYPD to identify a wheel alignment made shortly before a later request for another wheel alignment. (The notation "RS align" in the "Reason for Repair" category above refers to a wheel alignment.) Using the information in this pre-inspection report, NYPD was able to further investigate the original wheel alignment supposedly performed by Lapina Monaco. The investigation revealed that Lapina Monaco could not have performed the wheel alignment because it did not have the necessary equipment. This investigation resulted in the NYPD suspending all payments to this particular vendor, Lapina Monaco.

In another example, the NYPD pre-inspection report dated January 4, 1996, for vehicle #9570, 1991 GMC, stated the following:

"Reason for Repair: Normal wear, no start. Battery?  
"Result of Inspections: Found vendor in state of replacement of battery (Delco Freedom) Was done last week at Fleet.  
"Follow-up: Request vendor save bill. Will test at CRS."

This NYPD pre-inspection report shows that Lapina Monaco was about to replace the battery in the vehicle despite the fact that the battery was replaced only the week before by another GECFS vendor. As a result of this pre-inspection, the City did not have to pay for this unnecessary battery replacement. The timeliness and thoroughness of NYPD's pre-inspections and subsequent reports allowed it to stop unnecessary repairs that the GECFS vendor was about to make.

In contrast to NYPD, DOT's pre-inspections and reports were very general and did not indicate detailed information on the repair requested. For example, the pre-inspection report for vehicle #663, a 1992 Ford Taurus, only contained the notation "P.M. Motor Mounts." The City auditors' review of the invoice from Reaction Auto Service Center, Queens, NY, indicated that repairs costing \$659.45 were performed on this vehicle. DOT officials told the auditors that they do not review the repair histories of the vehicles to determine whether the repairs requested were covered under a warranty agreement. In this example, it is clear there was no link between the very general comment--"P.M. Motor Mounts"--and in DOT being charged \$659 in total. DOT was, therefore, charged

for repairs without the type of review performed by NYPD, which would have established the necessity for the repair.

DCAS Pre-Inspections. Finally, the City auditors' review also included the pre-inspections performed by DCAS. According to DCAS officials, a DCAS inspector is supposed to perform a pre-inspection for all repairs over \$450; for repairs under \$450, the DCAS inspectors should randomly perform pre-inspections. The auditors' review indicated that DCAS inspectors performed pre-inspections for 236 repairs costing over \$450. Only 9 of the 236 pre-inspection reports were for repairs costing less than \$450.

DCAS performs its pre-inspections at the GECFS vendor's repair shop. If the repair is over \$450, the GECFS vendor contacts the GECFS toll-free number for authorization to complete the repair. GECFS then notifies DCAS and faxes an authorization request detailing the repairs needed. DCAS' Deputy Director for Fleet Operations reviews this authorization request and assigns a DCAS inspector to inspect the vehicle.

As part of the pre-inspection process, the DCAS inspector estimates the cost of the repair using applicable price books and industry estimating guides, such as the current *Mitchell Mechanical Parts* and *Labor Estimating Guide* and the *Goodyear National Price Guide* for the specific vehicle. The inspector will then visit the GECFS vendor and inspect the vehicle. Based on the pre-inspection, the inspector is authorized to change the scope of the repair and negotiate a price with the vendor. Once the inspector and the vendor agree on the scope and price of the repair, DCAS' Contract Liaison and Deputy Director authorize the GECFS vendor's revised repair request.<sup>12</sup>

The following examples help illustrate the effectiveness of DCAS' pre-inspection process for repairs over \$450. (As stated earlier, DCAS only provided us 9 pre-inspection reports for repairs under \$450.)

For example, the pre-inspection report dated December 7, 1995, for vehicle #0082099, a 1992 Ford Bronco, stated the following:

"Discrepancy: New ball joint, new power steering pump, new power steering hose, flush cooling system, minor tune-up and lube oil filter.

---

<sup>12</sup>It should be noted that even though DCAS formally incorporated these specific pre-inspection steps in November 1996, DCAS was following these procedures during the period of our review.

"Inspector's Comments: We feel that the play on the ball joint front lower L/H side has minimal play and at this time does not need to be replaced, the power steering noise in my opinion, that is air-bound, this we feel happened because the power steering hose that is leaking allowed the reservoir to go low on fluid, we recommend to replace steering hose and bleed P.S. system. Do not replace steering pump at this time. Although the coolant appears to be good it is 4 years in the system and its okay to flush and renew at this time.

"The tune-up as requested by the driver of veh. there was no complaint about performance or drivability. Tune-up I feel can wait due to low mileage."

There were six items listed in the vehicle "Discrepancy" category for which the GECFS vendor King Bear Auto Service Center in Brooklyn, NY, estimated a repair charge of \$642. However, as a result of the DCAS' Inspector's detailed pre-inspection of the vehicle, three of the six items were excluded from the proposed repair. This resulted in the proposed repair estimate by King Bear Auto decreasing by \$505 to only \$137. Therefore, DCAS' effective pre-inspection process saved the City \$505 in this instance.

In another example, a pre-inspection report dated March 14, 1996, for vehicle #23226, a 1987 Plymouth Reliant, stated the following:

"Discrepancy: 185/70/14 Regatta, Disposal Charge, Bal Tire and Valve Stems, New Mcpherson Strut Assy, Lifetime Warr on Struts, New Rear Shocks Hd, Thrust Angle Alignment, New Engine Mounts."

"Inspector's Comments: All repairs listed on the estimate need to be done. However, the prices are incorrect, according to the Goodyear National Price Guide. I brought this to the attention of the Manager [of GECFS vendor E. Fordham Road Tire] who made the necessary corrections.

"I recommend that the repairs be done at the cost of \$411 and the cost of the tire."

In this instance, the thoroughness of the DCAS inspector's pre-inspection process resulted in the GECFS vendor (E. Fordham Road Tire) reducing his original repair estimate. This resulted in

a cost saving of \$277, with the original repair estimate decreasing from \$688 to \$411.

In summary, given the repeat and unnecessary repairs, discussed in greater detail later on in this report, it becomes clear that City agencies should always, or at least periodically, inspect vehicles before they are repaired by GECFS vendors. Therefore, a sound pre-inspection process, such as NYPD's and DCAS' for repairs over \$450, which are described above, would help ensure that the City only pays for repairs that are warranted and necessary.

**City Agencies Did Not Conduct Post-Inspections**

The four City agencies that did not conduct any pre-inspections also did not conduct any post-inspections to ensure that the repairs billed for by GECFS vendors were actually performed. (After the Exit Conference, DOF officials promised to provide us with a memorandum detailing their request to DCAS for post-inspection assistance. The City auditors received this memo on September 17, 1997.)

The other three agencies, which do pre-inspections, perform post-inspections as follows: at DOT, officials indicated that their post-inspections consisted of merely certifying, on the GECFS vendor's invoice, that the repair was satisfactorily performed. (DOT did not maintain any additional documentation showing that it actually verified that the repair was performed.) At DCAS, the agency only performs post-inspections under certain limited conditions: if the driver of a recently repaired vehicle complains about its performance, or if the DCAS inspector determines that such a post-inspection is necessary. However, documentation of such post-inspections was not available for the DCAS vehicles in our sample. Lastly, and in contrast to all the preceding, NYPD personnel did conduct periodic post-inspections and provided the auditors with evidence of their results. The following sections describe the post-inspections performed by DOT, DCAS, and NYPD.

DOT Post-Inspections. DOT informed City auditors that its mechanics conduct post-inspections for all vehicles repaired by a GECFS vendor, regardless of whether the repairs cost over or under \$450. The review of DOT's post-inspection process revealed that a DOT mechanic was supposed to certify the GECFS invoices by merely stamping a certification stating that the repairs had been performed. No additional documentation supporting the certification stamped on the invoices is required.<sup>13</sup> Consequently, the City auditors are unable to confirm that DOT actually verified whether the repairs were performed. The City auditors' review of the invoices in the sample did not indicate that DOT returned a vehicle to a GECFS vendor because of an unsatisfactory repair, or that it denied payment for such a reason.

---

<sup>13</sup>The stamp certifying DOT's post-inspection contains the following:

"I hereby certify that articles on this invoice have been received and that the quantity and quality thereof have been verified or services specified have been performed or expenses indicated have been incurred, for City purposes.

Date: \_\_\_\_\_ Approved by: \_\_\_\_\_"

This review of the 44 vendor invoices for the 10 vehicles in our sample indicated that DOT did not even certify all the invoices--by stamping them--that the repair was actually performed.<sup>14</sup> Specifically, DOT did not stamp 7 of the 44 invoices. At the Exit Conference and at a post-Exit Conference meeting, DOT officials indicated that these invoices were certified (i.e., stamped) on the back of the invoice, and alleged that the auditors had not photocopied the back of the invoice. The City auditors disagree. During the audit, the auditors did not observe any certification stamp on the back of the invoices, as alleged by DOT officials during the Exit Conference. In addition, DOT officials did not explain why, in contrast, the remaining 37 were all stamped/certified on the front of the invoice.

Given its weak pre-inspection process (discussed earlier) and the lack of documented post-inspections, we must conclude that the overall process used by DOT to ensure that the City only pays for actual and necessary repairs is weak and ineffective.

NYPD Post-Inspections. NYPD stated that it performs random post-inspections for all repairs, both over and under \$450. The City auditors reviewed 209 reports of post-inspections performed by NYPD. This review concluded that these post-inspection reports were descriptive, and that they were effective in ensuring that NYPD only paid for repairs that were actually performed. Specifically, NYPD auto mechanics review the GECFS vendor's invoice and examine the vehicle to determine whether the parts and repairs indicated on the invoice were actually provided. Each mechanic's observations and recommendations are then noted on the post-inspection report. These reports allow NYPD to take appropriate action when unnecessary repairs are found.

The following example, illustrating the effectiveness of NYPD's post-inspection process, corresponds to the pre-inspection performed by NYPD described earlier. The post-inspection report for Vehicle #9290, a 1993 Chevrolet, indicated the following:

"Results of Post-Inspection: Upon inspection of bills at vendor [Lapina Monaco] Sgt. Kunar questioned vendor as to find out if he has equipment to perform wheel alignment. Vendor states no. We then questioned how he did repairs. He stated he sent all wheel alignment to [another vendor]. . . . Sgt. Kunar went directly to that vendor and spoke to General Manager. He looked through all his

---

<sup>14</sup>We requested all 49 vendor invoices for the 10 vehicles in our sample. DOT only provided us with 44 vendors invoices.

invoices and had none for wheel alignment. Lapina Monaco had none either. . . . Directed by ICO to call Lt. Russell and stop all future repairs from being sent to this vendor. Also inspect last 4 months of previous bills for all charges to align. vehicles from Lapina Monaco."

As a result of this detailed post-inspection, NYPD determined that this GECFS vendor had not performed a wheel alignment, as stated on the invoice for this vehicle. This led NYPD to investigate all wheel alignments billed by this vendor in the previous four months. Based on the results of the investigation, NYPD found five additional instances of billings for wheel alignments not actually performed by this vendor.

DCAS Post-Inspections. Our discussions with DCAS officials indicated that they are supposed to perform random post-inspections for repairs costing both over and under \$450. The City auditors found that DCAS performed post-inspections for only three of 236 repairs costing over \$450 in fiscal year 1996. While claiming to have made post-inspections for repairs under \$450, DCAS officials only provided us with documentation for only one inspection. Since DCAS could provide us with only four post-inspection reports for all of fiscal year 1996, we must conclude that DCAS does not have an effective process to ensure that the City only pays for actual and necessary repairs.

Once again, we emphasize the need for routine or random inspections of City agency vehicles after they are repaired by GECFS' vendors. Such inspections would provide additional assurance that all of the repairs paid for by the City were actually performed. The effectiveness of such a process is well-demonstrated by the results of NYPD's post-inspections.

**DCAS Did Not Follow NYC Comptroller-Suggested Post-Inspection Process**

The failure of many City agencies to conduct adequate post-inspections of repairs, before paying GECFS, is especially troublesome in the light of pre-existing correspondence between DCAS and the Comptroller's Office, Bureau of Management and Accounting Systems, on this topic.

Specifically, on July 14, 1994, DCAS' Director of Audits and Accounts informed the Comptroller's Office, Bureau of Management and Accounting Systems, of its intent to only inspect repair work in excess of \$500. (See Attachment A for a copy of the letter from DCAS' Director.) In response to this information, the

Comptroller's Bureau Chief issued a letter advising DCAS of the potential risks associated with this new procedure. (See Attachment B for a copy of this letter.) Specifically, this letter stated:

". . . although agencies clearly have some discretion in establishing internal pre/audit certification procedures, any deviation from the procedures in the Comptroller's internal control and accountability directives must be made carefully. The plan you have described, while alleviating your staffing shortage problems, introduces a number of potential risks.

"Since, as I understand it, the vast majority of vehicle repairs cost less than \$500, your new procedure will result in very few physical inspections for DGS' [DCAS] vehicle repair expenditures. We recognize that certification of repair work consumes scarce personnel resources, however, over time, the failure to inspect work done could be more costly in terms of shoddy, improper or even unperformed work.

"There are a number of steps you should take to lessen the risk with the process you have outlined. A good audit policy, for example, should incorporate some level of 'field' testing. As you know, the threat of physical on-site reviews is a powerful deterrent to abusive practices. Rather than simply accepting written certifications that records were examined for every under \$500 repair, we recommend that randomly conducted field checks be incorporated into your plan in a manner that ensures that each vendor's work is selected."

Based on the results of our review, it is clear that DCAS officials ignored the recommendations contained in the letter from the Comptroller's Office, Bureau of Management and Accounting Systems. Furthermore, it appears that DCAS officials did not share the information in the letter with the other six City agencies that utilized GECFS. (However, this did not affect the NYPD which, as stated earlier, performs effective post-inspections.)

At the Exit Conference on August 8, 1997, DCAS officials disagreed with this section of the report, indicating that they were unaware of the letter sent by the Comptroller's Office, Bureau of Management and Accounting Systems, to DCAS' Director of Audits and Accounts. However, DCAS officials indicated that they would

FINDINGS AND RECOMMENDATIONS:  
MONITORING OF GECFS AND  
ITS VENDORS (CITY) CONT'D

further investigate this matter to determine whether the contents of the letter were actually conveyed to DCAS' Office of Fleet

Administration. To date, DCAS has not provided us with any additional information.

**Conclusion: State and City**

The State auditors found problems with the State agencies' monitoring of the repairs GECFS vendors made to State vehicles. Specifically, the State auditors found that only three of ten agencies had monitoring activities adequate to minimize unnecessary vehicle repairs costs.

Similarly, City auditors found that agencies do not adequately monitor GECFS and its vendors to ensure that the City is being billed for repairs actually performed. Specifically, four of the seven City agencies never conducted pre- or post-inspections of vehicles repaired by GECFS' vendors.

## **Recommendations**

The *State Comptroller* recommends that OGS:

- 1(S) Require the contractor to provide the State with the written procedures the contractor's representatives must follow in processing repair requests and claims under the contract.
- 2(S) Develop a program, using input from the agencies with significant motor vehicle fleets, to formally assess the quality of the services provided the contractor.

The *City Comptroller* recommends that DCAS and other City agencies issuing purchase orders against the contract:

- 1(C) Use City-employed mechanics or other appropriate personnel to conduct inspections of City vehicles before and after they are repaired by sub-vendors.
- 2(C) Develop formal inspection procedures for monitoring sub-vendors. These procedures should include guidelines for the mechanics to follow when documenting the results of the inspections.
- 3(C) Provide training to fleet administrators and mechanics to facilitate the implementation of the above procedures.
- 4(C) Notify the vendor about any problems identified during the inspections so that the appropriate action can be taken against the sub-vendors.

**Agencies Did Not Always Obtain or Reconcile  
Vendor Invoices Prior to Payment**

**State Comptroller's Findings**

**State Agencies Did Not Reconcile Their Invoices  
to Monthly Billing Statements**

State auditors found that State agency officials generally do not reconcile the original repair shop invoices to the monthly billing submitted by GECFS. In a review of 20 invoices for starter repairs/replacements, the State auditors noted that the prices on the invoices differed from the information on the GECFS billing file 14 times (70 percent). In seven instances, the amounts of the invoices were less than the amounts billed to GECFS, and paid by the State. Although most of the variances were minor, a few were significant.

In one instance, the amount billed by GECFS and paid by the State (\$455.26) exceeded the amount of the invoice (\$261.00) by \$194.26. The State auditors attribute a significant portion of this difference to a charge for labor, which was not specified on the invoice. However, the average and median labor charges (\$90 and \$79, respectively) on the 20 invoices the State auditors reviewed was significantly less than the \$194.26 the State paid over the invoice amount in this instance. Therefore, the auditors believe there is a high risk that the State paid more than it should have for this repair.

**Agency Response:**

In response to the draft report, OGS officials agreed with our recommendation to reconcile repair invoices with monthly summary billings. Officials added that this practice would be implemented if it was not already in place.

**City Comptroller's Findings**

**City Agencies Did Not Always Obtain Vendor Invoices for Review Prior to Payment**

City auditors found that fleet administrators at the seven City agencies did not have many of the invoices from the GECFS vendors to support payments for repairs. Specifically, the fleet administrators were unable to provide us with 130 (38 percent) of the 344 invoices pertaining to the repairs to our sampled vehicles.

After a repair is made to a vehicle, the GECFS vendor provides the City agency driver with an invoice. A copy of this invoice is forwarded to GECFS. Every month GECFS issues a billing statement to each City agency for payment. This monthly billing statement contains the vehicle identification numbers, the dates the vehicles were serviced, a brief description of the services provided, and the related charges.

During the audit, the City auditors found that the fleet administrators at the City agencies did not have all the vendors' invoices on file. The auditors selected a sample of 70 vehicles (10 from each agency) for review. According to GECFS' records, there were 344 invoices issued by GECFS' vendors for repairs on these City vehicles during fiscal year 1996. The review found that the City agencies' invoice files did not contain 130 (38%) of the 344 invoices, as shown in Table II.

**TABLE II**

Number of Missing Vendor Invoices By City Agency

Agency Name	Number of Invoices Requested	Number of Invoices Provided	Number of Invoices Not Provided	Percentage of Invoices Not Provided
DHS	50	12	38	76%
HPD	42	27	15	36%
DCAS	31	8	23	74%
DOF	69	39	30	43%
NYPD	37	28	9	24%
HRA	66	56	10	15%
DOT	49	44	5	10%
<b>Total</b>	<b>344</b>	<b>214</b>	<b>130</b>	<b>38%</b>

In addition, about 59 (27 percent) of the 214 invoices that were provided did not separate the vendors' charges between parts and labor, which would make it difficult for the City agencies to assess the reasonableness of the vendors' charges. (See Attachment C for examples of vendors' invoices obtained by the City auditors.) In fact, the City auditors noted that the contract did not require the vendors to separate the parts and labor charges on the invoices.

City auditors requested the vendors' invoices from the City agencies' fleet administrators to determine whether these invoices were readily accessible for review. The availability of such City invoices for the auditors review would have provided additional assurance that GECFS billed only for services actually provided to the City by its vendors; i.e., City agencies paid only for repairs that were actually performed. By having the City invoices readily available for review, the City agencies would have reasonable assurance that the fleet administrators at these agencies had received the necessary invoices and actually reviewed them prior to making payments. The missing invoices (see Table II) indicate that none of the City agencies had all the GECFS vendors' invoices on file. After the request, some of the City agencies contacted the different GECFS vendors and obtained duplicate copies of the invoices and forwarded them to City auditors. However, these invoices are not relevant for the purposes of this particular audit test.

In any case, other than for NYPD's invoices, it does not seem to matter that many of the invoices were useless for judging what repairs had been performed, since the agencies themselves did not link their payments to invoices produced by GECFS' vendors, which document to a greater or lesser extent the repairs performed. Instead, City agencies relied solely on the monthly billing statements they received from GECFS, which do not describe the specific repair services provided and the related parts and labor charges. This information, normally found on vendors' invoices, would have allowed the agencies to ensure that the vendors' charges for parts and labor were reasonable. In addition, the specific charges only appear on the monthly billing statements several months after the repairs were made. This makes it even more difficult to use the monthly billing statements to verify the legitimacy of the repairs.



## **Conclusion: State and City**

Based on the results of their review, the State auditors found that 70 percent of the invoices for starter repairs/replacements differed from prices listed in the GECFS billing file. In some instances, the auditors found that the amount on the vendors' invoices was less than the amount GECFS charged the State.

The City auditors found that the fleet administrators at the City agencies did not have 38 percent of the vendors' invoices on file. Therefore, the auditors could not determine whether GECFS billed the City only for services actually performed by GECFS vendors.

The State and City auditors are obviously concerned that the State and City could have paid such substantial amounts with such minimal review and without invoices detailing the repairs performed.

## **Recommendations**

The *State Comptroller's Office* recommends that:

- 3(S) State agency staff to obtain copies of all repair shop invoices and reconcile the invoices to the monthly bill from the contractor.

The *City Comptroller's Office* recommends that City agencies:

- 5(C) Obtain invoices from sub-vendors detailing the charges for parts and labor for all repairs performed, and compare the charges to the vendor's monthly billing statements to ensure that all charges are appropriate.
- 6(C) Review the invoices to ensure that the parts and labor charges on the invoices are within industry standards. To accomplish this, the fleet administrators should use an industry estimating guide, such as the *Mitchell Mechanical Parts* and the *Labor Estimating Guide*.
- 7(C) Notify the vendor of any excessive charges so that the vendor can direct the sub-vendor to make the appropriate price adjustments.

**GECFS' Own Files Show That the State and City  
Were Billed for Repeat Repairs**

Using the State Comptroller's specialized audit software, State and City auditors reviewed GECFS' computerized billing files to identify repeat repairs, and evaluated these repairs for potential warranty coverage. GECFS' files contained the State and City vehicle numbers, the dates and descriptions of services provided, the names of the vendors, the repair codes and related charges, and the vendors' billing dates. The analysis of this data showed that GECFS did not detect and prevent its vendors from billing the State and City for repairs covered by the warranty.

According to its contract with the State and City, GECFS is required to identify repeat repairs and enforce the warranty agreement. With regard to the warranty agreement, the contract states:

"GECFS will provide warranty grievance services for all repairs supplied through the maintenance control program should the repair fail to meet the vendor's specified material and/or workmanship warranty.

"National Accounts will provide extended warranties on chassis and brake repairs that may vary by vendor. All other repairs are typically warranted for 90 days or 3,000 miles by National Accounts, independents and dealers.

"Evaluate each repair on the vehicle for potential warranty coverage or post warranty/goodwill adjustments.

"[Ensure that] repeat repairs will be identified, and service warranties will be identified and requested. Problems will be tracked and proper intervention utilized to ensure proper resolution."

**State Comptroller's Findings**

**State Auditors Identify Payments for Repeat Repairs on State Vehicles in GECFS Billing Files**

Based on an analysis of the centralized vehicle repair history, there was evidence that GECFS has not effectively monitored the State's fleet repairs. This has likely resulted in the State paying for repairs that should have been covered under warranty. Examples of questionable claims and payments are summarized as follows:

- Based on the States auditors' discussions with industry experts and parts suppliers, they determined that brake repairs are typically warranted for 1 year or 12,000 miles. As indicated in Table III below, there were 59 instances where a State agency was billed for a second brake job within 1 year or 12,000 miles. For 40 of the 59 second brake jobs the State auditors identified, GECFS billed the State amounts ranging from \$100 to \$256 per repair.

**TABLE III**

Number of Times Brakes Have Been Repaired Within a Warranty Period

Miles Since Last Brake Job	# of Brake Jobs
0 to 3,000	5
3,001 to 6,000	17
6,001 to 9,000	20
9,001 to 12,000	17
<b>Total</b>	<b>59</b>

- GECFS billed the State for 49 transmission repairs (generally major overhauls), within 24 months of a prior transmission repair, at costs ranging from \$300 to \$1,800. According to an automotive repair expert contacted by State auditors, a transmission overhaul should last the life of a vehicle. The typical warranty on these repairs is 1 year or 12,000 miles. Among the 49 overhauls, six repairs were billed within 1 year or 12,000 miles of a

prior transmission repair. The charges for these six repairs totaled \$5,658. Another four transmission repairs were billed shortly after the warranties for prior transmission work expired. In these cases, GECFS should have requested the repair shop to honor the warranty. The charges for these repairs totaled \$3,281.

- Manufacturers typically warranty new vehicles for 3 years/36,000 miles. However, State auditors identified transmission overhauls on two vehicles with less than 36,000 miles. For one of these vehicles, the manufacturer's warranty expired only 18 days prior to repair. Parts manufacturers frequently have unpublicized "good will" programs wherein they will honor a warranty slightly beyond its official expiration date. Thus, inquiries should be made to determine whether a manufacturer will honor a recently-expired warranty, particularly when a major repair like a transmission is involved. However, there is no indication on the billing file that a warranty was pursued for either vehicle.
- Manufacturers generally warranty passenger vehicle batteries for 48 to 60 months (unlimited mileage). The State auditors' review of battery replacements found 115 vehicle batteries billed within 36 months of the last new battery, with almost no evidence of prorated credit for the battery being replaced. For 13 vehicles, it was found that a second battery was purchased from the same repair shop within 12 months.
- Based on their discussions with industry experts, the State auditors determined that manufacturers' warranties for new and rebuilt starters is generally 1 year or 12,000 miles. In some cases, warranties of up to 3 years are available. The State was billed for multiple starter replacements for 64 vehicles. For 39 (61 percent) of those vehicles, GECFS should have advised the agency to exercise its warranty rights. The total billed for the starter repairs for these vehicles was about \$7,127.

**Agency Response:**

In response to the draft report, OGS officials noted that the contract included features to help ensure that warranties were exercised when available. They added, however, that use of warranties was limited because motorists took their State vehicles to repair shops before calling the contractor. OGS officials also stated that they have emphasized calling the contractor first so

that, if possible, motorists can be directed to a repair shop that will honor the available warranty.

## City Comptroller's Findings

### City Auditors Also Identify Payments for Repeat Repairs on City Vehicles in GECFS Billing Files

The review of GECFS' billing records revealed that GECFS did not consistently monitor its vendors to prevent the City from being billed for duplicate repairs. In some cases, the City was billed for duplicate repairs only a few weeks after the initial repairs were performed.

Based on this review of GECFS' billing records, the City auditors conclude that GECFS did not adhere to its contract requirements. As a result, the City paid for repairs that should have been covered under the warranty agreement.

GECFS' billing records reflect 62 different repair categories. The City auditors reviewed the billing records for 10 of the 62 repair categories in fiscal year 1996.<sup>15</sup> The auditors did not identify any repeat repairs in four of the ten categories reviewed. However, in the remaining six categories, the auditors identified 158 repeat repairs during the fiscal year. (The six repair categories included alternators, batteries, radiators, starters, transmissions, and windshield wipers.) Of these 158 repeat repairs, 94 were covered under the warranty agreement. While GECFS did enforce the warranty agreement for 20 of these 94 repeat repairs, it did not enforce the warranty agreement for the remaining 74. Consequently, GECFS' failure to enforce the warranty agreement for these 74 repeat repairs cost the City \$11,713.

As noted above, while City auditors reviewed 10 repeat repair categories, the auditors did not review the remaining 52 categories because they were unable to identify the specific repairs carried out. For example, one of the 52 categories was to repair the light system. When the auditors attempted to review the billings for the light system, they could not determine whether the repairs were related to signal park lamps, clearance lights or simply headlights. Nonetheless, the following examples help illustrate the manner in which GECFS' failure to enforce the warranty agreement resulted in additional costs to the City.

- On October 26, 1995, a GECFS vendor--Citywide Hi-Tech located at 3795 10th Avenue in Manhattan--installed a

---

<sup>15</sup>Our review covered the following 10 repair categories: alternators, batteries, radiators, starters, transmissions, windshield wipers, brakes, new tires, used tires, and towing.

rebuilt starter costing \$115.22 in an NYPD vehicle (#94137B). Only 23 days later, on November 18, 1995, another GECFS vendor--Good Year Tire located at 166-15 Baisley Blvd in Jamaica, Queens, NY--installed a second rebuilt starter in the same vehicle and charged the City \$210.00. Again, 59 days later, on January 17, 1996, a third GECFS vendor--49th Street Auto Service located at 616 West 49th Street in Manhattan--installed a third rebuilt starter in the same vehicle and charged the City \$127.76. Overall, the City was charged \$452.98 for three rebuilt starters, all installed within the 90-day warranty period applying to the original repair.

- On August 10, 1995, a GECFS vendor--GK Auto Center located at 372 Lafayette Street in Manhattan--installed a new radiator for \$250.65 in a DOF vehicle (#46597). Only 29 days later, on September 8, 1995, another GECFS vendor--49th Street Auto Service located at 616 West 49th Street in Manhattan--installed a second new radiator in the same vehicle, charging the City \$495.94. Overall, the City was charged \$746.59 for two new radiators within the 90-day warranty period applying to the original repair.

In response to this finding, DOF forwarded a memorandum to the City auditors dated August 15, 1997, from DCAS' Acting Director of Fleet Administration and Transportation, stating:

"This confirms my conversation with the Mayor's Office of Operations regarding vehicle 46597. This vehicle is listed as belonging to the Sheriff. At the time of the first repair, G.K. Auto did not replace the radiator but repaired a radiator leak. This repair stopped the leak and the radiator was returned to service. At the time of the second occasion, the radiator began leaking at several other points, none of them the site of the original leak. The vendor therefore recommended the replacement of the entire radiator assembly. This is not a repeat repair."

Notwithstanding the fact that this latest correspondence from DCAS did not include any invoices or other written documentation from G.K. Auto, the City auditors would still be concerned that the initial repair of a single radiator leak could cost the City \$250.65. Therefore, the auditors continue to maintain that this was a repeat repair.

Table IV shows the number and associated costs of the repeat repairs by repair category.



**TABLE IV**

Number of Repeat Repairs Performed Within Warranty Period  
and the Cost of those Repairs by Repair Category

Repair Category	Number of Repeat Repairs*	Number of Vehicles Involved	Total Cost of Repeat Repairs
Alternators	6	6	\$1,160
Batteries	18	16	\$1,986
Radiators	8	6	\$2,450
Starters	12	10	\$2,025
Transmissions	7	7	\$3,527
Windshield Wipers	23	23	\$564
<b>Total</b>	<b>74</b>	<b>68</b>	<b>\$11,713</b>

\* Does not include initial repairs performed. When "number of repeat repairs" in this column equals the "number of vehicles involved" in the next column, this means that each vehicle had one repeat repair. When it exceeds the second number, this means that some vehicle(s) had more than one repeat repair.

It should be noted that for 39 of these 74 repeat repairs, both the initial and the repeat repairs were performed by the same vendor. In one case, a GECFS vendor--Good Year Tire located at 166-15 Baisley Blvd in Jamaica, Queens, NY--performed both the initial and subsequent repairs for six of these repeat repairs involving six City vehicles. (Most of the repeat repairs were in the following four categories: batteries, starters, transmissions, and windshield wipers.) This leads the City auditors to question the reliability and integrity of some of GECFS' vendors, and of this one in particular. It also leads City auditors to conclude that GECFS is not doing enough in terms of monitoring warranties, and that the City is not doing enough to monitor GECFS' performance in this area.

For example, on December 28, 1995, a GECFS vendor--Goodyear Tire located at 166-15 Baisley Blvd in Jamaica, Queens, NY--provided a complete transmission service costing \$736 in an NYPD vehicle (#63977A). Only 13 days later, on January 10, 1996, the same vendor provided the same service on the vehicle, charging the City another \$622.90.

In another example, on July 24, 1995, a GECFS vendor--Delk Transmissions located at 72-01 Queens Blvd. in Woodside, Queens,

NY--rebuilt an automatic transmission for \$791.77 in a DOT vehicle (#0021020). On April 2, 1996, the same vendor again rebuilt the automatic transmission, this time charging the City \$679.95. It should be noted that this particular vendor told the auditors that transmission work is warranted for 12 months or 12,000 miles. Therefore, this repeat repair should have been covered by a warranty.

Given the number of repeat repairs the City auditors found for only 10 of the 62 repair categories, the City is apparently wasting a significant amount of money in all repair categories on repeat repairs that should be covered under warranties.

### **Conclusion: State and City**

The State auditors found instances in four repair categories (brakes, transmissions, batteries, and starters) where GECFS did not enforce the warranty agreement for repairs performed on State vehicles. For two of these repair categories (starter and transmission), the auditors found that the State was billed for \$12,785 for repairs that should have been covered under warranty.

The City auditors reviewed six repair categories (alternators, batteries, radiators, starters, transmissions, and windshield wipers) for fiscal year 1996. They found that GECFS did not enforce the warranty agreement for 74 repeat repairs on City vehicles, costing the City \$11,713.

Taken together, the analyses by both State and City auditors clearly demonstrate that GECFS is not adequately identifying repeat repairs and enforcing the warranty agreement. This results in the State and City paying for repairs that should be covered under warranty.

## Recommendations

The *State Comptroller* recommends that:

- 4(S) OGS should require the contractor to document the procedures it uses to ensure that agency personnel are informed about the warranty privileges from prior repair work. OGS should also require the contractor to refer drivers to repair shops that warranty repairs for one year or longer.

The *City Comptroller* recommends that the fleet administrators at the City agencies:

- 8(C) Obtain management reports, which detail valuable information about the repairs performed on City vehicles. For example, GECFS (or a new vendor) could provide a report, known as a Vehicle Maintenance Detail, which contains a complete maintenance history of each vehicle. These reports could be used to identify repetitive and unnecessary repairs.
- 9(C) Periodically obtain and review the vendor's electronic billing files to identify any repeat repairs that should have been covered under the warranty agreement.
- 10(C) Notify the vendor of any repeat repairs to ensure that the sub-vendors honor the warranty agreement. If the fleet administrators note any duplicate repairs that have been erroneously paid for, they should take the necessary steps to recoup money from the sub-vendors or the vendor.

**Auditors' Controlled Field Test Results:**  
**GECFS' Preferred Vendors Frequently Charge**  
**the State and City for Unnecessary Repairs**

To determine whether there was any risk that GECFS billed the State and City for unnecessary repairs, the State and City auditors used specialized audit software to access and analyze GECFS' computerized billing file.

The State and City auditors' review of GECFS computerized billing file established that some of the GECFS vendors performed and billed the State and City for unnecessary repairs.

The City auditors decided to design a statistically valid controlled field test of repair charges. The State auditors participated in the controlled field test in order to maximize limited audit resources and to obtain examples of charges for unnecessary repairs to State vehicles. This test would use City Comptroller vehicles to determine whether some GECFS vendors would actually perform and bill the City for unnecessary repair charges. The repair charges would then be projected to the total repair charges billed to the City by GECFS vendor for fiscal year 1996.

The City auditors then contracted with an automotive repair consultant who operates a New York licensed repair shop to first pre-inspect, then "rig" functioning City vehicles, and then post-inspect the City vehicles after the GECFS vendor has performed the repairs.

## State Comptroller's Findings

### GECFS Vendors Performed Unnecessary Repairs on State Vehicles

In three of the six tests involving State vehicles, the GECFS vendors performed and billed GECFS (and therefore the State) for a repair that was unnecessary. For example, on one State vehicle the consultant disconnected a sensor hose, causing the vehicle to run rough and to stall. The required repair was simply to reconnect the sensor hose, which the consultant estimated to cost about \$45. However, in addition to reconnecting the sensor hose, the GECFS vendor unnecessarily replaced a logic module, which added \$151 to the bill. (*This example is also discussed by the City Comptroller on page 54.*)

On another State vehicle, the consultant misadjusted the gap on a spark plug, which could cause the vehicle to run rough. The only repair required was to properly gap the malfunctioning spark plug, with the repair cost estimated at \$45. However, in addition to adjusting the spark plug gap, the GECFS vendor unnecessarily replaced a coolant sensor and a fuel filter, which added \$110 to the bill.

The consultant loosened the alternator belt on a third State vehicle. The actions required to correct this problem were to tighten the alternator belt and recharge the battery. However, the repair shop unnecessarily replaced the alternator belt and a serpentine belt, which added \$32 to the bill.

The State auditors conducted the tests for State vehicles at six of the highest volume repair shops paid through GECFS. However, since these tests were limited to a judgmental selected sample of repair shops, it cannot be concluded that shops are performing and billing for unnecessary repairs 50 percent of the time, as was the case in the State auditors' tests. However, the State auditors do believe that the tests demonstrate that an environment currently exists in which vendors can bill for unnecessary work with little chance of detection or questioning by GECFS.

### Agency Response:

In response to the draft report, OGS officials acknowledged that it would be admirable for the contractor to advise agencies about repair shops that perform unnecessary work. However, OGS

FINDINGS AND RECOMMENDATIONS:  
CONTROLLED FIELD TEST, CONT'D  
(STATE)

officials added that it can be difficult to prove that unnecessary work was performed. They stated, for example, that it may have been appropriate for the repair shop to replace the serpentine belt, as detailed in one of the instances we noted previously, as a form of preventive maintenance.

We believe that it was clear in the other two instances we detailed that the repairs were, in fact, unnecessary. We maintain that management should advise agency employees to refrain from using certain repair shops, particularly if a pattern of questionable billings develops.

## City Comptroller's Findings

### GECFS Vendors Performed More than \$1 Million in Unnecessary Repairs

The City Comptroller's controlled field test revealed that GECFS' preferred vendors frequently performed unnecessary repairs on City vehicles. Based on the results of the tests, the City auditors estimated that the City paid GECFS \$1,095,964 for unnecessary repairs in fiscal year 1996.<sup>16</sup>

All but two GECFS vendors covered during the tests billed the City a total of at least \$10,000 each for automotive repairs during fiscal year 1996. During the tests, City and State vehicles were brought to 26 GECFS vendors. The 26 vendors charged a total of \$4,527.12 for the repairs conducted during the tests. Of the 26 vendors, 14 charged \$2,310.49, or 51 percent of the total charges, for unnecessary repairs to the vehicles, as shown in Table V.

---

<sup>16</sup>Dollar amount based upon 123 charges from the GECFS vendors during our controlled field test. We are 95% confident that the City was charged between \$884,897 and \$1,307,032 for unnecessary repairs during fiscal year 1996. The point estimate is \$1,095,964. The sampling error is +/- 8.78%.

**TABLE V**

Summary of Results of Controlled Field Test

Total vendors in the sample/test	26
Total repair incidents in the sample/test	28*
Number/percentage of vendors Performing unnecessary repairs	14/54%
Total dollar value of repairs	\$4,527.12
Total dollar value of unnecessary repairs	\$2,310.49
Percent of total dollar amount related to unnecessary repairs	51%
Total bills submitted by 14 vendors doing unnecessary repairs	\$3,587.92
Percent of bills of 14 vendors attributable to unnecessary repairs	64%

\* Two of the 26 vendors were tested twice during the test which accounts for the fact that there are 28 total repairs in the sample/test.

As indicated in Table V, 14 of the 26 vendors in the sample charged the City for unnecessary repairs during the tests. It should be noted that all 14 vendors were on GECFS' Preferred Vendor List. Based on the inspections conducted by the consulting mechanic, 64 percent of the 14 vendors' charges were for unnecessary repairs. (On May 6, 1997, we directed DCAS officials not to pay GECFS for these unnecessary repairs.)

Table VI provides additional details about the repairs performed by the GECFS vendors, which resulted in the State and City being charged for unnecessary repairs during the controlled field tests.

**TABLE VI**

Unnecessary Repairs Identified  
During the Controlled Field Tests

Name & Location of GECFS Vendors	Amount Charged by GECFS Vendor	Charges Associated with Unnecessary Repairs	Percent of Unnecessary Charges
Northern Auto Repairs/Save with Soll Queens, NY.	\$212.44	\$151.25	71%
Great Bear 1175 Coney Is. Ave. Brooklyn, NY	\$230.52	\$191.80	83%
Great Bear 1175 Coney Is. Ave. Brooklyn, NY	\$406.25	\$356.30	88%
Tom & Arties Brooklyn, NY	\$209.42	\$166.42	79%
Alpha I Brooklyn, NY	\$319.00	\$135.00	42%
Macon Trans. Ridgewood, NY	\$185.00	\$117.00	63%
King Bear Firestone Bronx, NY	\$85.00	\$40.00	47%
Two-Guys New York, NY	\$183.95	\$105.00	57%
Conduit Tire & Auto Good Year Brooklyn, NY	\$155.04	\$110.04	71%
5 K's Kar Kare Brooklyn, NY	\$370.30	\$235.90	64%
Sherwood Auto Bronx, New York	\$63.00	\$15.00	24%
Chris & Charles Queens, NY	\$436.60	\$118.00	27%
A to Z Good Year Brooklyn, NY	\$406.35	\$341.85	84%
Atlas Auto Service Brooklyn, NY	\$240.00	\$195.00	81%
Diagnostic Auto Center Brooklyn, NY	\$85.05	\$31.93	38%
<b>TOTAL(S)</b>	<b>\$3,587.92</b>	<b>\$2,310.49</b>	<b>64%</b>

As shown in Table VI, 14 vendors charged the State and the City for unnecessary repairs during the controlled field tests. Based on the consultant's review of these vendors' invoices, the City auditors concluded that 64 percent of the repair charges were for unnecessary repairs, as indicated by the following examples:

- On March 10, 1997, the consulting mechanic rigged a Comptroller's Office vehicle (#38) by loosening the power lines to the alternator. According to the mechanic, this problem should have been corrected by simply tightening the power lines to the alternator and recharging the battery, which he estimated should cost approximately \$30.00. However, when this vehicle was brought to the GECFS vendor--Macon Transmissions, Inc., located at 1952 Flushing Avenue, Ridgewood, Queens, NY--the City was overcharged by \$117 because the vendor unnecessarily replaced the alternator with a rebuilt one.
- On March 26, 1997, the consulting mechanic rigged a Comptroller's Office vehicle (#39) by loosening the nuts attaching the wires to the alternator. According to the mechanic, this problem should have been corrected by simply tightening the nuts attaching the wires to the alternator, and by recharging the battery, which he estimated should cost approximately \$30.00. However, when this vehicle was brought to the GECFS vendor--5K's Kar Kare, Inc., located at 8681 13th Avenue, Brooklyn, NY--the City was overcharged \$235.90 because the vendor unnecessarily replaced the alternator.
- On April 8, 1997, a New York State vehicle was rigged by disconnecting the MAP Sensor vacuum hose from the engine's throttle body. According to the mechanic, this problem should have been corrected simply by reconnecting the vacuum hose to the throttle body, which he estimated should cost \$45.00. However, when this vehicle was brought to a GECFS vendor--Northern Auto Repairs, "aka" Save With Soll, located at 4236 Northern Blvd., Long Island City, Queens, NY--the City was overcharged \$151.25 because the vendor installed an unneeded logic module.
- On April 15, 1997, the consulting mechanic rigged a Comptroller's Office vehicle (#27) by adjusting the rear brakes. According to the mechanic, this problem should have been corrected by re-adjusting the rear brakes and by repacking the bearings, which he estimated should cost \$45.00. However, when this vehicle was brought to one of

GECFS vendors--Atlas Auto Service, Ltd., located at 542-544 Vanderbilt Avenue, Brooklyn, N.Y.--the City was overcharged \$195 because the vendor provided the following unnecessary repairs: a new master cylinder, new rear wheel cylinders, and bleeding the brake system.

It should be noted that some of GECFS' vendors also performed repairs that the consulting mechanic considered to be routine maintenance (i.e., oil changes and NYS inspections) but which had not been requested. While these services were not necessary to correct the problems he created when he rigged the vehicles, we considered them as acceptable charges.

Based on the results of the tests, it is obvious that GECFS' vendors charged the City for numerous unnecessary vehicle repairs. The City auditors cannot determine whether the vendors are intentionally making unnecessary repairs to defraud the City, or whether they are simply incompetent. Whatever the case, it is clear that the City needs to do more to ensure that GECFS institutes the necessary controls to prevent unnecessary repairs to City vehicles.

**Additional Information Corroborating  
the Validity of the Controlled Field Test**

During the Exit Conference, DCAS disagreed with the results of the March 12th field test. Specifically, DCAS officials claimed that it was appropriate for the GECFS vendor to replace the MAP Sensor on the vehicle involved in that test, and not just reconnect the MAP Sensor vacuum hose, as recommended by the Comptroller's consultant mechanic.

On March 12, 1997, this vehicle was rigged by disconnecting the MAP Sensor vacuum hose from the engine's throttle body. According to the consultant mechanic, this problem should have been corrected simply by reconnecting the hose to the throttle body, a repair he estimated would cost \$45.00. The City auditors initially brought the vehicle to Tri-County, Inc., located at 1261 Zerega Avenue, Bronx, NY; however, when the auditor called GECFS' toll-free line for authorization to use Tri-County to perform the repair, GECFS told the auditor to use an alternate vendor, because Tri-County was not a preferred GECFS vendor. Tri-County did not inspect or perform any sort of repair on the City vehicle at this time.

GECFS directed the auditors to take the City vehicle to another vendor, King Bear Firestone, a preferred GECFS vendor,

located at 2020 Westchester Avenue, Bronx, NY. The City auditors took the vehicle to this vendor, who charged the City \$85 to replace the entire MAP Sensor.

According to DCAS officials and the vendor, the entire MAP Sensor was replaced because the Comptroller's consultant mechanic cracked the nipple of the MAP Sensor while disconnecting the vacuum hose from the MAP Sensor. However, the City auditors strongly disagree with this explanation since the consultant mechanic did not disconnect the MAP Sensor vacuum hose from the MAP Sensor; rather, he disconnected it from the other end, the engine's throttle body.

The following information also helps illustrate that this was indeed an unnecessary repair. When the City auditor took the rigged vehicle to the second vendor, King Bear Firestone, the auditor told the vendor that the vehicle was "driving rough" and that "the check engine light was on." The vendor's mechanic then used a scanner to diagnose the problem. At this point, the vendor's mechanic did not touch the MAP Sensor. Based on the scanner's reading, the mechanic replaced the vehicle's MAP Sensor. However, the "check engine light" was still on. The mechanic then checked the connections for the MAP Sensor vacuum hose and realized that it was disconnected from the engine's throttle body. The mechanic then reconnected the hose to the engine's throttle body and the vehicle "check engine light" did not come on. The vendor then informed the auditor that he would not charge the City for parts and labor, but would only charge the City for the MAP Sensor.

The City auditors conveyed this information to a representative at King Bear Firestone, who offered an alternative explanation. According to this representative, it was possible that Tri-County, Inc., may have cracked the nipple on the MAP Sensor. (King Bear Firestone's representative contacted GECFS and determined that the vehicle was initially taken to Tri-County.) However, as indicated before and as we informed King Bear Firestone's representative, a Tri-County mechanic never inspected, and certainly did not repair, the vehicle.

Finally, King Bear Firestone's representative offered yet another explanation. Specifically, after the City auditors explained the manner in which the vehicle was rigged and the fact that Tri-County never even inspected the vehicle, he indicated that it was possible that his own mechanic may have accidentally cracked the nipple of the MAP Sensor, requiring its replacement.

FINDINGS AND RECOMMENDATIONS:  
CONTROLLED FIELD TEST  
(CITY) CONT'D

In conclusion, as explained above, the City auditors continue to maintain that the controlled field test was valid and accurate and that the repair conducted by this vendor was unnecessary. What probably happened was that the King Bear mechanic attempted to correct the problem first by changing the MAP sensor. When that did not work, he then reconnected the vacuum hose to the throttle body, which had been "rigged." He realized his mistake, which is why he only charged the City for the part--not the labor. When this matter subsequently became a major issue, the mechanic probably "covered his tracks" by claiming the nipple was broken.

A review of another vendor's reaction to the results of the controlled field test is similar. After "A to Z" was informed by DCAS of the results of our audit, a representative from "A to Z" called the City auditors and claimed that the repair he performed was legitimate. After the City auditors explained to him how the vehicle was rigged and why, therefore making his repair unnecessary, he backed off. The City auditors have not heard from him again.

The point that the City auditors are making here is that the auditors' conclusion was correct. The more important lesson is that the test involved both the mechanics' expertise and knowledge on the part of the auditors. Combined with the support of the expert consultant, the auditors were able to recognize these unnecessary repairs and to argue on "equal ground" with the vendors. Unless City agencies perform similar roles by conducting adequate pre- and post-inspections of repairs with support from expert personnel, unnecessary repairs like the ones the auditors have identified will surely continue.

### **Conclusion: State and City**

The State auditors found that in three of the six tests involving State vehicles, GECFS vendors performed and billed GECFS (and therefore the State) for repairs that were unnecessary.

The City tests revealed that GECFS' preferred vendors frequently performed unnecessary repairs on City Vehicles. Based on the results, the City auditors project that the City paid GECFS approximately more than a million dollars for unnecessary repairs in fiscal year 1996.

### **Recommendations**

The *State Comptroller* recommends that:

- 5(S) OGS require the contractor to advise State agencies about repair shops that perform and bill for unnecessary services. State agencies should also inform their staff about such repair shops so staff can avoid taking their vehicles to these locations.

The *City Comptroller* recommends that DCAS, in conjunction with the agencies that use GECFS' services, ask the City's Law Department to:

- 11(C) Consider pursuing an affirmative claim against GECFS to recover the projected \$1.1 million in charges for the unnecessary repairs as well as a portion of the monthly administrative charges for services it did not provide.

**OTHER STATE AND CITY ISSUES**

The following sections describe the results of specific reviews that were performed by either the State or City auditors.

**City Comptroller**

**NYPD Also Found Problems With GECFS' Vendors Including Billings for Unnecessary Repairs and Fraudulent Billings for Services Not Performed**

The City auditors reviewed Quality Assurance Report (QARs) prepared by NYPD's mechanics. The QARs were prepared by NYPD mechanics who performed post-inspections on vehicles repaired by GECFS' vendors. According to these reports, NYPD found various problems with 64 (31 percent) of the 209 repairs it inspected during fiscal year 1996, as shown in Table VII.

**TABLE VII**

Results of NYPD's Inspections

Problems Identified by NYPD	Number of Instances Cited by NYPD	Number of Vendors Cited by NYPD*
Poor Workmanship	32	11
Services Not Performed	18	8
Overbilling	9	6
Unauthorized Repairs	3	3
Incorrect Diagnosis	2	2
<b>Total</b>	<b>64</b>	<b>30</b>

\* Certain GECFS vendors are included in more than one category.

As shown in Table VII, NYPD identified 18 cases involving eight GECFS vendors who billed the City for repairs not actually performed. NYPD also identified nine cases where GECFS' vendors overbilled the City for repairs to its vehicles. In other cases, NYPD cited GECFS' vendors for poor workmanship, and for billing for unauthorized and unnecessary repairs. It should be noted that during our controlled field tests the City auditors also found

problems with two of the same vendors--Save With Soll, located in  
 Q ted by  
 NYPD. These are some examples of NYPD's findings:

On February 2  
 GECFS vendor--Great Bear located on 128th Street i  
 Manhattan--to  
 to NYPD's post inspection report, this vend  
 the e  
 and cool temperature sensor for \$202.00.

On J a  
 M , Brooklyn, NY-  
 -fo billing services not actually performed.  
 pecifically, this vendor billed NYPD for wheel alignments  
 seven vehicles. However, an NYPD investigation  
 that this vendor did not have the equipment for  
 alignments and that these services were never

- On ary 5, 1996, NYPD brought a vehicle (#9785) to a  
 ECFS vendor--49th Street Auto Corp., located at 616 West  
 h Street, Manhattan--for the following repairs  
 brakes, shock  
 to r  
 unnecessarily e  
 vehicle at a cost of \$187.84.

own conclusions regarding unnecessary repairs. More importantly,  
 the results of the City auditors review and of NYPD's inspections  
 e monstrate the need to closely monitor repairs performed by GECFS'  
 s. Most importantly, however, these results indicate tha  
 the program involving this privatization initiative lacks, ov  
 a very basic element: consumer common sense.

I expect that anyone who takes a  
 v air will obtain an estimate, review  
 the bill, and/or question charges for repairs not done or covered  
 nder warranty. Most City agencies--other than NYPD--either do not  
 this at all, or they do only some of it. This failure is all  
 he more alarming since it should have been obvious, at the outset,  
 the structure of this privatization initiative would b  
 conducive to abuse.

I usiness solely with GECFS, per  
 s ght on

FINDINGS AND RECOMMENDATIONS  
OTHER EVIDENCE OF FRAUD AND  
UNNECESSARY REPAIRS (CITY) CONT'D

some City agencies' part might have been more understandable, though not excusable. Rather, the City is doing business with local garages all over the City, and is therefore subject to the same abuse potential--if not more--as the average vehicle owner. This situation should have raised red flags, but did not. The cost to the City for failing in this area is more than a million dollars a year.

## State Comptroller

### GECFS Monitoring of Vehicle Repairs

According to its contract with the State and City, GECFS is required to define and monitor the quality of services performed by its subcontractors--national and independent auto repair shops--for both the State and City. As such, GECFS must have procedures for tracking, evaluating, and approving services provided by repair shops.

According to GECFS, when one of its vendors calls for repair authorization, a qualified GECFS mechanical technician will:

- assess the necessity of the repair by reviewing the vehicle's repair history,
- discuss the repair diagnosis with the repair shop,
- determine whether the repair estimate is reasonably priced and negotiate the price of the repairs, and
- either approve or deny the repair.

The contract further required a GECFS representative to contact the appropriate State or City agency for repairs estimated to cost more than \$450, for prior authorization of such repairs. For amounts less than \$450, State or City agency prior approval was not necessary, unless specifically requested by agency management. The contract also states that the State or City will not be responsible for payments for any unauthorized automotive services or unapproved charges. However, the State auditors identified \$12,231 in unauthorized repairs (each job exceeding \$450) that were billed to the State. (Note: In response to the draft report, OGS officials agreed with our recommendation that agency staff match billings for major repairs to the corresponding prior approvals to ensure that such approvals were obtained, as required, before the repairs were performed. They added that this practice would be implemented if it was not already in place.)

Also, according to a GECFS officials, if the repair is done at a national account garage, invoices are received electronically from the national account's central office. Each of the national account vendors has provided GECFS with an electronic price file. The price files list the standard prices charged by national account garages for specific repairs. When a national account

electronically bills for services, GECFS matches the charge against the price file for national accounts. If the price charged by the national garage is higher than list price in the national account price file, the amount of the invoice is reduced to the price file amount. If the invoice is received from an independent garage, it is manually entered into the GECFS computer system and audited to determine whether the repair was properly authorized, mathematically accurate, and within 20 percent of the original estimate.

To evaluate price, a GECFS official stated that technicians have access to flat rate manuals, including *Mitchell's On Demand* and *Chilton's*. These manuals provide both the list price of a new part and the expected labor hours required to remove and replace the part. To evaluate the price of rebuilt parts, GECFS uses a benchmark of 30 to 40 percent less than the new part price. If the GECFS technician approves the repair, an authorization number is given to the repair shop and the repair is recorded to the central repair history file. Subsequently, the State auditors reviewed GECFS' vendor invoices for the cost of the repairs. Below are a list of some examples:

- For the three-year period ending July 31, 1996, the State auditors found that the State was billed for 1,199 new batteries, installed by repair shops at a total cost of \$95,530 (or an average cost of about \$80 per battery). However, the State had a contract to purchase vehicle batteries directly from a specific vendor at prices ranging from \$23 to \$45. If State agencies paid \$45 (per battery) for the 1,199 batteries by purchasing them directly from the contract vendor, the State could have saved about \$41,000. (Note: In response to the draft report, OGS officials indicated that they would raise awareness of the state contract for batteries. They added, however, that most batteries are replaced after they fail, and the costs of lost staff time due to delays while waiting for a battery from the contractor could exceed the savings obtained by purchasing off the contract. If this is the case, we believe that OGS officials need to assess the effectiveness of the current battery contractor and consider other potential contractors who could respond more timely.)
- To evaluate the prices charged for starters, the State auditors relied on prices quoted by *National Parts Supplier* and *Mitchell's On Demand*. The auditors' reviewed

the 20 highest-priced starters installed in during \$5,800. In ten instances, rebuilt starters were installed but the State was overcharged \$1,610 (27 percent of sample cost). In six instances, new starters were installed. If rebuilt starters had been installed in State vehicles, the State could have saved \$1,025 (17 percent of sample cost). The remaining four starters

- The State auditors found that GECFS' methodology for determining rebuilt part prices may be deficient. As previously noted, GECFS representatives advised the State auditors that a fair price for a rebuilt part is generally 10 to 40 percent less than the market price for a new part. As such, it was anticipated that rebuilt starters would cost 10 to 40 percent less than the market price of a new starter. However, based on this analysis, it was found that rebuilt starter prices were as much as 8 percent of market price. Note: In response to the draft report, OGS officials indicated that they will monitor the contractor's performance only to the extent that they are involved as an individual user of the contract. In the event that prices for services or parts

Both State and City auditors requested that officials of GECF provide them with the procedure manuals its representatives use to ensure that GECFS had fulfilled its contract obligations to the State and City. GECFS officials, however, denied the auditors copies of the procedures, stating that the written procedure constituted proprietary information. Under these circumstances, the auditors requested that GECFS provide them with copies of its procedures for fulfilling its contract responsibilities. As noted later in this report, the auditors' joint review of automated repair history files indicates that GECFS' monitoring of repair work was not adequate.

## State Comptroller

### GECFS Billing File Does Not Ensure Accurate or Consistent Repair Information

To adequately monitor and assess repairs, both GECFS and State fleet managers need a tracking system that is accurate. To accomplish this objective, information needs to be entered accurately and consistently to the GECFS automated billing file. The State auditors found evidence that GECFS does not ensure that vehicle repair information is always entered accurately or consistently on the billing file.<sup>17</sup> For example:

- The State auditors' review of 20 starter invoices for starter repairs/replacements found that the prices on the invoices differed from the information on the GE billing file 14 times (70 percent).
- One State vehicle had a starter replaced on December 21, 1993, when the mileage was 119,975. Thirty-seven days later, the same vehicle had another starter repair when the mileage was recorded as 12,717.
- The State auditors' review of transmission repairs, found four State vehicles with zero as the recorded miles at time of repair.
- The State auditors' review of starter pricing for the five most common makes and models of State vehicles, found it difficult to evaluate the prices charged because GECFS was inconsistent in entering the data on the invoices. In some cases, GECFS separated the parts and labor charges, and in other instances both charges are combined. When charges are combined it is difficult to assess whether the State has been overcharged.
- The State auditors' review of vehicle battery replacements, found six instances where a starter was purchased, but recorded on the GECFS billing file as a battery.

---

<sup>17</sup>For the purpose of the audit, the State auditors corrected information obtained from the GECFS billing file as necessary based on their review of available source documentation. Thus, the State concluded that the data presented in this report are materially accurate.

\_\_\_\_\_ e \_\_\_\_\_ s  
 m \_\_\_\_\_ specific vehicles in their fleets.

\_\_\_\_\_ :  
 \_\_\_\_\_ res \_\_\_\_\_ t  
 erifying the accuracy of the c \_\_\_\_\_  
 large \_\_\_\_\_ e  
 tractor's \_\_\_\_\_ t  
 adequate return in performing additional verificatio \_\_\_\_\_  
 p \_\_\_\_\_ taff. We would note, however, that \_\_\_\_\_  
 verif \_\_\_\_\_ e  
 data base). Furthermore, OGS noted that the new contrac \_\_\_\_\_  
 p \_\_\_\_\_ , and, as such, State agencies will \_\_\_\_\_

**Recommendations**

*State Comptroller*

OGS encourage State agencies to obtain motor vehicle batteries directly through State contracts where possible, rather than through the GECFS repair process

7(S) \_\_\_\_\_ o  
 ure \_\_\_\_\_ .  
 procedures should include a periodic \_\_\_\_\_ o  
 comparison \_\_\_\_\_  
 publications to ensure that costs are reasonable.

State agency personnel track all prior approvals from \_\_\_\_\_ those repairs with the monthly \_\_\_\_\_  
 to ensure that GECFS is \_\_\_\_\_  
 prior \_\_\_\_\_ g

9(S) \_\_\_\_\_ agencies periodically obtain copies of their \_\_\_\_\_  
 au \_\_\_\_\_ billing files from GECFS and, on a sample basis, verify the accuracy/validity of data on the files to available supporting documentation.

City Comptroller

Department of Consumer Affairs' Records

Show that GECFS' Preferred Vendors

Have Numerous Consumer Violations and Complaints

The City auditors' review of the New York City Department of Consumer Affairs' (DCA) records showed that 244 (28 percent) of GECFS' 857 "Preferred Vendors" had consumer complaints and violations issued by DCA.<sup>18</sup> Of greatest concern is the fact that DCA records show that 21 of the 857 vendors were deemed to be in violation of DCA regulations; the remaining 223 vendors had various complaints registered against them by consumers. For example, some of the complaints registered in DCA's records included instances of "bait and switch," breach of contract, breach of warranty, and various overcharges.

Table VIII contains information obtained from DCA's records about the eleven GECFS preferred vendors with the most violations.

---

<sup>18</sup>When New York City residents contact DCA with complaints about vendors in the City, these complaints are recorded on DCA's Consumer Affairs Management Information System (CAMIS.) After further investigating these complaints, DCA may cite the vendor for violating DCA's regulations. DCA also cites vendors for violating its regulations during routine inspections of vendors.

**TABLE VIII**

Eleven GECFS Preferred Vendors with the Most  
 DCA-Issued Violations

Vendor Name	Number of Violations	Amount of DCA-Imposed Fines
Tony's Towing Services	14	\$10,250
Bridge Tow Corporation	7	14,750
Alladin Body and Fender Works	7	11,075
S & K Auto Body	5	5,000
Steven Lincoln Mercury Inc.	4	2,410
164th Street Auto	4	1,870
B K Chevrolet Inc.	3	1,900
Carriage House Collision Inc.	3	1,100
Ben-Go Center Ltd.	2	225
Tophill S/S Inc.	2	800
Tommy Bug Auto	2	350

As shown in Table VIII, the City auditors found a number of GECFS vendors with violations on DCA's records. (DCA issued these violations between fiscal years 1989 and 1997.) Since all of these vendors are on the GECFS preferred vendor list, it is likely that the City will use some, or all, of them for automotive repairs at some time. In fact, the review of GECFS' billing records shows that the City paid one of the vendors--164th Street Auto in Queens, NY--\$35,743 for automotive repairs during fiscal year 1996. This vendor had received four violations during fiscal years 1991, 1992, and 1996 for operating without a license--misleading advertisement and breach of contract. The vendor was subsequently fined \$1,870 by DCA.

Table IX contains information obtained from DCA's records about the ten GECFS preferred vendors with the most consumer complaints. (It should be noted that the same GECFS vendor could appear more than once under the different types of complaints listed on the following page.)

**TABLE IX**

Ten GECFS Preferred Vendors with Most  
Consumer Complaints

GECFS Preferred Vendor	Type of Complaint						Total
	Misrepresentation	Billing Dispute	Breach of Contract	Surcharge/Overcharge	Refund Policy	Other	
Jamaica Towing Inc.	-	3	-	42	3	6	54
Winfield A/B Corp. & WABC Town	-	1	-	29	-	1	31
Potamkin Toyota Automall	6	3	2	1	13	1	26
Bayside Chrysler Plymouth	1	1	3	1	10	1	17
Potamkin Chrysler Plymouth	2	-	3	-	7	3	15
Plaza Oldsmobile LTD/Mazda	2	1	2	2	7	-	14
Popular Ford Sales, Inc.	3	-	3	-	2	1	9
Northern Boulevard Dodge Inc.	1	1	1	1	2	1	7
Manhattan Ford Lincoln	-	-	1	1	2	2	6
Dick Gidron Ford	-	-	2	-	2	1	5

As shown in Table IX, the City auditors found a significant number of complaints on DCA's records related to different GECFS vendors. Since all of these vendors are on the GECFS preferred vendor list, it is likely that the City will use some or all of them for automotive repairs at some time.

The GECFS contract states that: "[GECFS] shall have no liability for any goods or services provided by any third party or independent contractor." Given these terms, it seems clear that if the City does not assess the reliability of GECFS' vendors, then no one will. In this connection, the information on DCA's records may be useful to fleet administrators when designing their quality control program for vehicle repairs by identifying any of GECFS'

vendors with reputations of unfair and unethical business practices. In addition, given the limited resources for post-inspections available to fleet administrators, such information could be useful in identifying higher risk vendors, who would require more aggressive oversight.

### **Recommendations**

The *City Comptroller* recommends that City agencies using GECFS or a new vendor:

- 12(C) Review DCA's complaint and violation records to identify sub-vendors with reputations of unfair and unethical business practices. The fleet administrators should also inform the vendor of any sub-vendors with numerous complaints and violations so that the vendor can stop referring City agencies to them.

Note: At the Exit Conference held on August 8, 1997, DCAS officials raised concerns that the above recommendation would lead to legal problems and lawsuits on the part of GECFS sub-vendors, who would be excluded from doing business with the City if the recommendation were implemented. Therefore, the following recommendation is added to this report:

- 13(C) If DCAS and/or other City agencies doing business with GECFS believe that implementing Recommendation #12 above is not feasible for legal reasons, then it and/or they should obtain a written legal opinion from the City's Law Department confirming that position, and forward that opinion to the Comptroller's Office along with the formal response to the draft audit.

## City Comptroller

### City Agencies Did Not Obtain or Review GECFS Management Reports

According to GECFS' contract, City agencies can obtain detailed repair reports to help them manage the repairs to their fleet of vehicles. Specifically, the contract states that:

"Accurate, concise management reports . . . are a valuable tool for your company to identify, isolate and control both fixed and variable operating expenses. Any reports can be produced monthly, quarterly, annually or upon request, and can be sorted to any level."

These reports contain valuable fleet repair and maintenance data which could have assisted the City agencies in identifying repetitive and unnecessary repairs. However, only one of the City agencies, DCAS, requested such reports from GECFS.

In fact, the letter from the Bureau of Management and Accounting Systems cited earlier referred to using tools, such as the repair history reports, to supplement the limited staff available for inspections. Specifically, the letter stated:

"The quality of the repair work could also be monitored indirectly by carefully reviewing breakdown frequency, or another appropriate measure, for indications that the repair program is deteriorating."

Unfortunately, DCAS did not share this letter with the other six City agencies using GECFS.

At the risk of being repetitive, it must be emphasized that the success of any privatization initiative depends on the quality of the City's management and oversight of the initiative. When the City's direct role in the delivery of services is reduced through privatization, a need is created for enhanced monitoring and oversight that evaluates: (1) compliance with the terms of the contract, and (2) performance in delivering services to ensure that the City's interests are fully protected. Therefore, DCAS' failure to implement the monitoring controls referred to above diluted the potential benefits of a privatization initiative, such as the GECFS maintenance and repair program.

**Five of the Seven City Agencies Did Not Conduct Any Trend Analysis of Vehicle Repair Histories**

The City auditors' review also revealed that five of the seven City agencies did not conduct any sort of trend analysis or review of the histories of vehicles repaired by GECFS' vendors. Such an analysis would have enabled the City agencies to identify any unusual or repetitive repairs.

HPD did conduct a year-end trend analysis; however, the City auditors continue to maintain that only a more frequent trend analysis will be effective in monitoring the GECFS vendors. The lapse of several months between the date of the repair and the date of review, combined with a sole year-end review, makes it very difficult to identify unnecessary repairs.

NYPD did not obtain these trend analysis reports from GECFS, but it did obtain a report that listed the previous billing histories of the relevant vehicles from FAMIS, the City's Fleet Administration Management Information System.

**Recommendations**

The *City Comptroller* recommends that:

- 14(C) Regardless of whether a new contract is awarded to GECFS or another vendor, DCAS should require the vendor to produce the following management reports and to provide them to agencies routinely on a specified periodic basis: Exception Report (a report listing vehicles performing outside fleet standards); Vehicle Cost Report (a detailed maintenance history of each vehicle); and Fleet Cost and Analytical Reports (a year-to-date summary of vehicle expenses and activity, a report to identify the mileage range of a vehicle where maintenance increases, and a report comparing vehicle costs by make and model.) These management reports could assist DCAS and other City agency fleet administrators in identifying and controlling vehicle maintenance and repair costs.

## City Comptroller

### DCAS' Cost Analysis Was Inaccurate

Prior to using GECFS to maintain its automotive fleet, DCAS prepared an analysis to evaluate the cost-effectiveness of using GECFS instead of a City-operated automotive repair operation to service its vehicles. We found two problems with DCAS' cost analysis that inflated the expected cost savings.

First, the analysis did not take into account the costs associated with monitoring and enforcing the terms of the contract. This understated the costs associated with contracting the City's automotive maintenance and repair service to GECFS. Second, DCAS erroneously understated--by 414 vehicles--the number of vehicles serviced by DCAS' inhouse BMV prior to contracting-out. Consequently, the average maintenance cost per vehicle maintained by BMV was inflated by \$917. (It was calculated at \$3,088 per vehicle, per year--it should have been \$2,017 per vehicle, per year.) In turn, this latter error inflated the expected savings associated with the privatization project by about \$714,000. These two problems (understating the costs of contracting out and understating the number of vehicles previously serviced by DCAS) inflated the expected cost savings from retaining GECFS as the City's automotive maintenance and service provider.

A series of reports and guides published by the Federal government reinforces the importance of performing accurate cost comparisons prior to contracting out services, as the City of New York did with GECFS. One of the more applicable guides in this connection, Circular A-76 from the U.S. Office of Management and Budget (OMB), lists the specific steps needed to determine the most cost-effective option--either contracting out or performing a service inhouse. While the City is not bound to follow this particular guideline, it can be a useful tool for setting up a comprehensive cost-comparison. The supplement to Circular A-76, OMB's Cost Comparison Handbook, summarizes the comparative cost methodology as follows:

"The agency is to prepare a document containing the government's estimate of the lowest number and types of employees required to do the work described. From these data and other estimated costs, the agency is to prepare a total estimated cost for inhouse performance. To estimate contractor performance costs, the selected bid or offer is added to other estimated costs, such as contract administration, [*emphasis added*] to develop a total projected cost for contracting out. The circular

requires comparisons of the two estimates for the agency to determine which alternative is more cost effective."

Table X summarizes the specific cost elements that agencies could consider in deciding whether to contract out or provide the service inhouse.

**TABLE X**

Inhouse vs. Contracting Out: Breakdown of Cost Elements

Inhouse Costs	Contract Costs
Personnel	Contract price
Material and supply	Contract administration
Other specifically attributable costs	Additional costs
Overhead	One-time contract conversion costs
Capital	Gain (loss) on disposal/transfer of assets
Additional costs	Federal income tax deduction

The City auditors also reviewed an article, "OMB's Circular A-76 and its Implications for Municipal Contracting," by Jonas Prager and Swati Desai.<sup>19</sup> According to Prager and Desai, "Municipal authorities . . . can benefit greatly from understanding and applying the A-76 methodology." They also say that the type of cost comparison suggested by OMB's A-76 prevents inappropriate contracting by ensuring that all contract costs are considered, not just the price charged by the contractor. The A-76 approach, in requiring a review of all contract costs, "distinguishes between those (overhead) costs that would be eliminated were contracting out implemented and those that would remain in any case."

The auditors' review found that DCAS did not perform the type of thorough analysis and cost comparison suggested by A-76 prior to awarding GECFS with the contract to service and maintain the City's motor vehicle fleet. In fact, DCAS' pre-award analysis reflected the two major problems described at the beginning of this section--i.e., the analysis did not take into account the costs associated with monitoring and enforcing the terms of the contract, and the analysis understated the number of vehicles serviced by DCAS.

---

<sup>19</sup>Prager, Jonas, and Desai, Swati. "OMB's Circular A-76 and its Implications for Municipal Contracting." New York University, July 5, 1995.

Table XI compares the items addressed by DCAS in its cost comparison with the items it could or should have considered, according to OMB Circular A-76:

**TABLE XI**

Items Included in Cost Comparison: DCAS vs. Circular A-76

Inhouse Performance Cost Items	A-76	DCAS	Contract Performance Cost Items	A-76	DCAS
Personnel	Yes	Yes	Contract Price	Yes	Yes
Material & Supply	Yes	Yes	Contract Administration	Yes	No
Other Specifically Attributable Costs <sup>(a)</sup>	Yes	No	Additional Costs <sup>(d)</sup>	Yes	No
Overhead	Yes	Yes	One-Time Conversion Costs <sup>(e)</sup>	Yes	No
Capital <sup>(b)</sup>	Yes	No	Gain (Loss) on Disposal/Transfer of Assets <sup>(f)</sup>	Yes	No
Additional Costs <sup>(c)</sup>	Yes	No	Income Tax Deduction <sup>(g)</sup>	Yes	No

**Note:** Some of the cost items indicated above are self-explanatory. The cost items that require explanation are:

- (a) = Includes depreciation, rent, maintenance and repair, utilities and insurance.
- (b) = New investment in facilities and equipment.
- (c) = Any government costs not classified by other cost elements resulting from unusual or special circumstances.
- (d) = Costs for unusual or special circumstances such as transportation or purchased services.
- (e) = Based on government discontinuing an existing activity and obtaining a service by contracting.
- (f) = Based on reduction in government assets.
- (g) = Revenue from contractor that reduces contract costs.

As indicated above, DCAS did not include three of the six items recommended in Circular A-76 in performing its inhouse cost analysis. Similarly, DCAS did not include five of the six items recommended in Circular A-76 in evaluating the costs of contracting out. Consequently, DCAS did not perform as comprehensive a cost comparison as it could have prior to awarding the City's vehicle repair and maintenance contract to GECFS.

The City needs reliable and complete cost information to ensure that appropriate decisions are made about services being considered for privatization. The City should always consider as many costs as possible--as illustrated in OMB's Circular A-76--

associated with privatization, including those related to administering the contract, monitoring the results, and training and supervising contract personnel. Without such information, the City could overestimate the true cost savings yielded through privatization projects, such as the GECFS contract.

At the Exit Conference on August 8, 1997, DCAS officials strongly disagreed with the audit's finding regarding the inaccurate cost analysis. Specifically, DCAS disagreed with the audit's finding that the agency erroneously understated--by 414 vehicles--the number of vehicles serviced by DCAS' inhouse BMV prior to contracting out. The audit determined that DCAS only factored 779 vehicles into its cost analysis, but that the actual number of vehicles serviced by DCAS' BMV in fiscal year 1995 was 1,193. (This number--1,193--was obtained from a memorandum provided to the City auditors by DCAS.)

Also, at the Exit Conference, DCAS officials indicated that the additional 414 vehicles contained in the audit report were "one-time repair and maintenance jobs." The City auditors also informed DCAS officials at the Exit Conference that even the Mayor's Management Report indicated that the number of vehicles to be serviced by DCAS' BMV in fiscal year 1995 was 1,333, a figure closer to the 1,193 vehicles used by the auditors. DCAS officials then agreed to provide us with a complete package of documents showing that the number of vehicles used in the cost analysis was accurate. However, despite three subsequent requests, to date DCAS has not provided us with this information.

At a post-Exit Conference meeting the City auditors held with DCAS officials on August 28, 1997, which was also attended by a representative from the Mayor's Office of Operations, the auditors once again asked DCAS officials for the number of vehicles that were actually serviced at DCAS' BMV during fiscal year 1995. DCAS officials continued to insist that the number of vehicles used in the cost analysis--779--was accurate. They also informed us that the reason why the 779 figure was used in the cost analysis was that it represented the number of vehicles that DCAS planned to repair and maintain under the GECFS contract.<sup>20</sup>

Despite this information, we continue to maintain that the initial cost analysis performed by DCAS was flawed and that it

---

<sup>20</sup>This appears to be a more reasonable explanation than others given to us as reasons for the discrepancy. However, even if this explanation is valid, the cost analysis would still be flawed: the inhouse costs for this smaller fleet should have been reduced to reflect the lower number of vehicles planned on being contracted out, but was not.

overstated the savings associated with contracting out the City's automotive repair and maintenance work to GECFS. Our reasoning in rejecting DCAS' argument that its 779 figure was accurate is based on two documented sources of information: (1) the memorandum provided by DCAS during the course of the audit indicating that the actual number of vehicles serviced was 1,193, and (2) the Mayor's Management Report, which states that DCAS' BMV planned to service 1,333 vehicles in fiscal year 1995.

It should be noted that when the City auditors alerted DCAS and Mayor's Office of Operations officials about the information regarding DCAS' BMV fleet in the Mayor's Management Report, we were told that this information was "inaccurate."

### **Recommendation**

The *City Comptroller* recommends that DCAS:

- 15(C) Reevaluate the cost-effectiveness of using a vendor for the City's automotive repair and maintenance program, taking into consideration all costs related to administering the contract, monitoring the results, and training and supervising contract personnel.
- 16(C) Carefully review the audit's findings and incorporate, where applicable, all recommendations contained in this report in the new Request For Proposal (RFP) currently being prepared.

## CONCLUSION

### State Comptroller's Conclusion

OGS officials have not formally assessed the quality of services provided by GECFS. Therefore, State officials cannot be assured that GECFS has delivered satisfactory fleet management services or minimized the State's fleet repair and maintenance costs. Moreover, officials at several of the State agencies the State auditors surveyed did not have adequate procedures to ensure that repairs billed by GECFS were necessary and appropriate.

### City Comptroller's Conclusion

The work performed by GECFS' vendors discussed in this report was previously performed by City employees. By assigning this work to GECFS, the City embarked on a privatization project. Several important lessons can, and should, be learned from the results of this audit.

The City officials must use reliable and complete cost information when making decisions about services being considered for privatization. All costs associated with privatization need to be considered, including those related to administering the contract, monitoring the results, and training and supervising contract personnel. Having this information will ensure that the City does not overestimate the expected cost savings from privatization projects.

Then, when the City embarks on a privatization project, it must recognize the need for enhanced monitoring and oversight of compliance with the terms of the contract, and of the contractor's performance in delivering services, to ensure that the City's interests are fully protected. Privatization does not always, on its own, reduce costs and/or improve services. The success of any privatization initiative depends almost totally on the quality of the City's management and oversight of the initiative. The planning, design, direction, and monitoring of any privatization initiative must ultimately continue to be performed by City employees. In this case, the lack of effective monitoring resulted in the City not detecting repetitive or unnecessary repairs. By relying solely on GECFS to monitor its vendors, the City wasted

approximately \$1.1 million on unnecessary repairs during fiscal year 1996.

During the latter stages of the audit, the City auditors were informed by DCAS officials that the agency was in the process of preparing a Request For Proposal (RFP) to obtain services similar to those provided by GECFS, whose contract was to originally expire on July 31, 1996. Instead, the contract was extended to July 31, 1997. Since then the contract has been extended to a month-to-month basis. The auditors were also told that GECFS is eligible to resubmit a proposal in response to the new RFP. In this connection, it is important that DCAS officials carefully review the audit's findings and recommendations to enhance the new RFP and to avoid the types of problems identified in the audit.

## DISCUSSION OF AGENCY RESPONSE

The agencies' formal response to this audit is voluminous. We received a 25-page letter from the Director of the Mayor's Office of Operations, accompanied by five attachments.

- *Attachment 1*, which was sent to the Director by the New York City Police Department, consists of three copies of invoices from Automobile Maintenance and Repair Order describing parts and labor charges.
- *Attachment 2*, which was sent to the Director by the Human Resources Administration, consists of a memorandum from its, Director of Procurement Services, replying to an auditor's request for fleet records dated on August 22, 1996. There is also an auditor's letter sent to HRA's, Director of Fleet Administration, requesting outstanding repair invoices. Finally, also attached are nine copies of outstanding invoices.
- *Attachment 3*, which was sent to the Director by the Department of Citywide Administrative Services, consists of technical references from Robert Bosch, Inc., Technical Instruction Alternators and Motorola Basic Electronic Regulator Theory Pamphlet 25-139.
- *Attachment 4*, which was sent to the Director by the Department of Citywide Administrative Services, consists of a memorandum from the Deputy Director of Enforcement for the Department of Consumer Affairs. This memo refers to a review of DCA records of violations for the eleven vendors mentioned in the report.
- *Attachment 5*, which was sent to the Director by the Department of Housing Preservation and Development, describes HPD's vehicle Maintenance Procedure.

This discussion will present and address the Mayor's Office of Operations response ("agency response") in a manner that reflects these four broad categories:

1. Agency's response as it relates to the City's privatization initiative;

2. Agency's response as it relates to the audit scope, objectives, and methodology;
3. Agency's response as it relates to the specific audit findings;
4. Agency's response as it relates to the audit's recommendations.

## 1. THE CITY'S PRIVATIZATION INITIATIVE

The agencies' most basic criticism of this audit is that the audit failed to acknowledge the alleged positive outcomes of the City's privatization initiative. In an attempt to prove their point, the agencies used certain numbers to argue that the privatization initiative reduced maintenance costs per vehicle, as well as vehicle downtime. The agencies' position is best illustrated by the Mayor's Office of Operations when, in its response, it stated:

"To start, it is disconcerting to read an audit report that only criticizes the actions taken prior to implementing and fully managing the GE Capital program. We believe that most of the critical findings would change if the report also discussed the positive outcomes of the program such as, lower service costs and less downtime per vehicle. For example, the GE Capital initiative has significantly lowered the vehicle repair costs of the Department of Citywide Administrative (DCAS) managed fleet. Under DCAS' in-house management, maintenance costs an average of \$3,088 annually per vehicle. When comparing this number to the Fiscal 1997 DCAS average annual maintenance cost of \$1,273 per vehicle, DCAS is saving, on average, \$1,815 per vehicle-- a total savings of \$1.4 million per year. Even when comparing the current maintenance cost to that found in the report--\$2,017 per vehicle--there is still an average savings of \$743 per vehicle per year. This represents, at a minimum, cost savings of 36 percent while improving service. The City achieved cost reductions of this magnitude through aggressive management and effective controls on the program."

"In addition, service is better and vehicle downtime (the time a vehicle is unavailable for use due to the need for maintenance) has decreased from ten percent to approximately two percent. . . ."

While the above numbers would indicate that the privatization initiative was successful in reducing the maintenance cost per vehicle, a misrepresentation of the facts surfaces when the manner in which DCAS computed the cost saving per vehicle is looked at more closely. DCAS erroneously computed the "pre-GE Capital" in-house annual average cost of \$3,088 per vehicle by dividing \$2,405,692 (the total costs associated with the in-house operations during fiscal year 1995) by 779--the number of vehicles that DCAS planned to maintain during the GE Capital program, but not necessarily the number of vehicles maintained at the pre-GE Capital cost of \$2.4 Million. This figure does not represent the total number of vehicles actually serviced by the in-house operation

during fiscal year 1995. Therefore, DCAS should not have used this figure as the basis for determining the in-house annual average cost.

In contrast, the average cost of \$2,017, computed by the auditors, was based on a memo from DCAS officials that stated that DCAS serviced 1,193 vehicles during fiscal year 1995. This number is also closer to the number of vehicles reported in the Mayor's Management Report (MMR). The MMR indicated that DCAS' BMV would service 1,333 vehicles in fiscal year 1995. After the exit conference DCAS officials stated that we could not use the number from their memo since that figure was obtained from FAMIS, which they claimed is an unreliable system. They also stated that we could not use the figures in the Mayor's Management Report because the figures are inaccurate.

DCAS officials stated that they would provide us with a complete package of documents showing that the number of vehicles used in the cost analysis was accurate. However, despite numerous requests, to date they have not been able to do so. Without these documents, we could not confirm the cost savings reported by DCAS.

DCAS' assertions that our reviews were limited to the actions taken by DCAS prior to implementing and fully managing the GE Capital program are also incorrect. We performed some of our field tests from February through April 1997, approximately a year and a half after DCAS implemented the GE Capital program. The results of these tests indicated that DCAS does not have adequate monitoring procedures to ensure that GECFS vendors only bill the City for repairs that are necessary. As a result, the City paid for many automotive repairs that were not necessary.

Finally, DCAS claimed that service is better and that vehicle downtime has decreased from ten percent to approximately two percent. We agree that a valid goal of a vehicle maintenance program is to reduce vehicle downtime, but we cannot confirm that downtime was actually reduced by contracting with GECFS since we did not audit this aspect of the program. It should be noted that we plan to conduct an audit of this issue in the future. (We are currently auditing a vehicle maintenance privatization initiative of the Parks Department that includes a review of vehicle downtime.) In the meantime, all we can say about an alleged vehicle downtime figure of 2% is that it appears to be unusually low. However, assuming it is correct, a question that would be answered during an audit would be for example: "How is it computed?" For example, a system that counts downtime only after

a vehicle has been received by a vendor, instead of from when the vehicle was actually taken out of service, would bias the figure downwards (i.e. make it look better) in an inappropriate fashion.

## 2. AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In their response, some of the agencies criticize our audit methodology, attempting to cast doubts over the audit's findings by questioning the various analyses we performed instead of disproving the findings themselves. Specifically, the response questions our analysis of the GECFS billing file, the selection of our consultant for the controlled field test, and our vendor sampling. However, we believe the explanation provided in the report and clarified further below clearly demonstrate the validity of our methodology and the various analyses we employed, including the planning and execution of our controlled field tests.

### *The Mayor's Office of Operations stated in its Response:*

"This section of the report does not adequately explain the methodology used to achieve your objectives. For example, what is meant by "the City auditors analyzed, with the assistance of the State auditors, GECFS' computerized billing file pertaining to Fiscal year 1996?" What was the nature of the assistance? Where did this file originate? Was a reliability test performed on the file? If so, who performed it and what were the results? Were GECFS technicians and managers consulted? What was the sample selection method employed for the 10 out of 62 repair categories chosen to test? What was the total universe?"

"Furthermore, the section discusses that the State and City hired a consultant for the controlled field test, but the selection process is not disclosed. Also, how were the vendors selected for the controlled test? Why do the State auditors indicate that a judgmental sample was used . . . , while the City auditors say a statistically valid controlled field test was designed . . . ? If these two different types of samples were, in fact, used, they cannot be combined to yield statistically valid projection to the universe. Also, what is the "specialized audit software" and how was it used? Additionally, how is it that a significant portion of the audit report refers to the cost analysis performed by the City, yet it is not listed as a separate objective? More important, why are these questions not addressed in the section dedicated to explaining the audit objectives, scope, and, methodology? Perhaps the report should go through your quality assurance process to ensure that, in fact, the report follows the U.S. General Accounting Office's Government Auditing Standards, as stated . . . (1994 Revision, Section 7.25)."

AGENCY RESPONSE

ITY ONT D

\_\_\_\_\_:

he State and the City auditors  
r billing files. Therefore, we  
r  
ided o  
o  
mine e

T the State's specialized audit  
to review GECFS' files. Specifically, with th  
assistance o

AC is an audit and reporting software package containin  
commands specifically designed to identify trends and t  
pinpoi exceptions and potential areas of concern. Thi  
audit software can locate errors and inconsistencies in th  
file by comparing and analyzing files according to users  
criteria.

Ci a  
billing file pertaining to automobile repair  
b during fiscal year 1996. This  
contained the vehicle numbers, the dates an  
descriptions of services provided, the names of the vendors,

Using the ACL software we:

- identified e
- 
- arched d
- 
- for duplicate payments and gaps in invoic  
numbers; and

conducted tracing the data

We h  
ECFS officials. Any informati

was taken into consideration when analyzing the results of the tests.

For the controlled field tests, we used the following procedures to select a mechanic who would serve as our consultant:

First, we obtained from GECFS a list of their preferred vendors in New York City. We compared this list to the list of registered repair shops in New York City that we obtained from the New York State Department of Motor Vehicles (DMV).

Second, we selected vendors from the DMV list who were not on GECFS' preferred vendor list, and who were located in a borough with fewer GECFS vendors.

Third, we selected a vendor who met the following qualifications:

- more than 30 years experience in the industry;
- graduation from vocational/technical school in automotive repair; and
- no outstanding violations or complaints registered with the New York City Department of Consumer Affairs.

Our review of GECFS' billing file indicated that there were 352 GECFS vendors who billed the City during fiscal year 1996 for automotive repairs. We stratified the population of these vendors into three groups by the dollar volume of repairs performed during Fiscal Year 1996. We found that there were 23 vendors who billed a total of \$50,000 or more, 56 vendors who billed between \$10,000 and \$50,000, and 273 vendors who billed below \$10,000. We decided to concentrate on the first two strata of vendors. We eliminated from these two strata 34 vendors who performed only glass repairs, auto body repairs, and truck repairs. This was done because we did not have any way to test these vendors without damaging City vehicles.

The remaining 45 vendors consisted of 12 vendors who billed in excess of \$50,000 for a total of \$1,695,027.43, and 33 vendors who billed between \$10,000 and \$50,000 for a total of \$718,930.57. We decided to sample all 12 vendors who billed in excess of \$50,000, and randomly sampled 11 (total billing of \$261,785.15) of the 33 vendors who billed between \$10,000 and \$50,000.

W illed by our 23 vendors during  
ur controlled field test to charges billed during Fiscal Yea  
1 were comparable. Our analysis

averag charges for repairs in fiscal years 1996 and 1997  
Theref in our opinion, the use of our controlled fiel  
t alue of unnecessary charges in

Our timate of \$1,095,964 is being applied against al  
charges billed (\$2,403,958) by our 23 sampled vendors during  
l g  
ractices were not tested during our controlled field test, w  
ap our estimate against all charges submitted by ou  
sam vendors because we found no differences in the pre  
inspection controls at DCAS as compared to those employed by  
work.

he total billings submitted fo  
the d  
r  
ultant. r  
repairs totaled \$1,968.64. We reduced th  
u amount to \$1,878.64 to credit  
fee" services provided <sup>21</sup> of the 23 vendors. Our tes  
esults, after the adjustments,  
o . Applying our test results to  
he \$2,403,958 in billings subm  
FY96, n

L o  
m y  
● l  
● r

---

<sup>21</sup> Two vendors (Quality Ford of Mt. Vernon and Alpha 1 located  
did not charge for any  
credit against the unnecessary repairs for each of these occurrences.

- Variable sampling using Ratio Estimation (one of the most efficient and conservative methods for variable sampling).

Contrary to the statement made in the agency response, we did not combine two different samples to estimate the unnecessary charges. As explained above, we selected a statistical sample of 23 vendors from a well-defined universe of GECFS vendors in the City. The State auditors selected a subset of our sample for their test. Since their subset consisted of only **six** of our 23 vendors, it was not sufficient for a statistical projection by the State auditors.

**FINDINGS**

**Its Vendors**

the agency response, DCAS claims the auditors believe in th  
n repairs  
nd that auditors ignore the issue of cost-effectiveness. Co  
t ndicated that DCAS failed to follow  
Comptroller's recommendations, and indeed its ow  
procedures, to inspect repairs costing less than \$450 on a random

**DCAS stated in its response**

". . . we will continue to disagree with the auditors with  
to the level of monitoring that is proper for thi  
p t  
b d  
before and after they are done. The auditors did no  
a fectiveness of their proposals  
the d  
The h  
deliver the acceptable level of service at the lowes  
overall cost. . . ."

\_\_\_\_\_:

ry t  
CAS or any other City agency i every  
we cited DCAS for not following the Comptroller'  
reco or its own procedures that require that i  
r e  
DCAS provided us with 236 pre-inspection reports fo  
r \$450. We found that only 9 of  
than \$450.

r dom pre-inspections of repairs  
less than \$450. If DCAS believes that the vehicl  
rep industry does not merit such scrutiny in order t  
safegu the City's assets, then it is showing extrem

naivete, especially given the results of our controlled field tests.

## City Agencies Did Not Conduct Pre-Inspections

In the agency response, DCAS claims that, just because it could not produce documentation on inspection of repairs costing under \$450, the auditors incorrectly conclude that the inspections were not done. DOT emphasizes that it had a process in place specifically to establish the necessity of repairs. As indicated in the auditors' comments, DCAS indicated that it provided all inspection reports for fiscal year 1996 to the auditors for their review. The auditor's comments also discuss the incompleteness of DOT's pre-inspection records and the auditors inability to determine from DOT inspection reports, or from FAMIS, whether all the repairs performed and billed to the City were actually necessary.

### DCAS stated in its response:

". . . many of the findings of this report regarding inspection stem from the fact that during this period DCAS was not able to produce much documentation for the inspections of repairs that cost less than \$450. The audit should note that, at that time, there was no requirement to document these inspections, and those that were documented were not filed centrally. Therefore, while we are pleased that the audit cites the effectiveness of the DCAS pre-inspection for repairs costing more that \$450 during this period, it does not change the fact that auditing anything during a start-up period is a questionable proposition. The auditors assume that because few of the lesser value inspections could be documented, that these inspections were not done. This is not a valid assumption."

DOT officials also were quoted as stating: ". . . the audit claims that DOT officials said that the pre-inspection process had nothing to do with establishing the necessity for the repair. This is certainly not the reason why we created the inspection and authorization forms. From the beginning of the program, we had written procedures for the shops to follow (a point the audit ignores). It is clear from those written instructions that the whole purpose of the pre-inspection is to establish that a repair is needed."

### Auditors' Comments:

On May 12, 1997, the auditors requested all inspection reports under and over \$450 for all repairs performed during fiscal

s

"Since represent 100% of the quality check the submission

s  
d  
"

efore, inspection of these inspection reports indicated that only nine inspection reports were for repairs costing less than \$450 Without performed more inspections for repairs costing less than \$450 we could only comment on these nine inspection reports.

l  
r  
S

e also deem DCAS' response here to be contradictory with what inspections makes little sense. Now it says that just because

-  
-

With regard to DOT's response, we found that DOT pre inspection reports were very general and that they did not describe the specific repairs needed to return the vehicle back to service. After the exit conference, DOT provided us thorough and complete.

our review of this printout for observations were too broad, and did not terminate

e

For example, the pre-inspection report for vehicle #313A, 19 Chevy Corsica, only contained the notation "No Star Condition". We reviewed the related FAMIS print-out to determine whether DOT specified the necessary repair on this

e

However, our review of the invoice from the vendor indicated that the work included: new crank sensor; new plug wires; new spark plugs; and lube oil filter.

e  
n

In conclusion, we could not determine from the DOT inspection report, or from FAMIS, whether all the repairs performed by this vendor and billed to the City were actually necessary to repair this vehicle.

### **City Agencies Did Not Conduct Post-Inspections**

The agency response states that DOT's position is that the shop supervisor's signature itself shows the correctness of the charges on an invoice. In auditors' comments we voice our concern that, given the poor pre-inspection process, the post-inspection process may not be able to determine the necessity of the repairs made. We also note that not all invoices had the post-inspection certification stamped on them, and, for those that were stamped, the certification was made on some invoices 13 to 40 days after the date of the repairs.

#### **DOT stated in its response:**

". . . the post inspection certification is signed by the shop supervisors. This fact was repeatedly told to the auditors. The report implies that anyone can stamp an invoice. Since the shop supervisor is responsible for the day to day administration of the repairs, his signature certifies that charges on invoices are correct."

#### **Auditors' Comments:**

As stated in the report, we found that DOT's poor pre-inspections would not detect billings for unnecessary repairs. Therefore, while the post inspection certification may verify that the repairs were actually performed, it would not determine that the repairs were necessary.

In addition, we found that 7 of the 44 invoices we reviewed did not have the post inspection certification stamped on them. More importantly, we found a time lag between the date of the repairs and the date the post inspection certifications were stamped on the invoices. In some cases, the invoices were stamped 13 to 40 days after the dates of the repairs.

**DCAS Did Not Follow NYC Comptroller-Suggested  
Post-Inspection Process**

In the agency response, DCAS downplays the importance of the Comptroller's Office memorandum that recommended random sampling of repairs, stating it had its own process that closely mirrored the inspection practices for repairs under \$450 recommended in the memorandum. In auditors' comments we note the audit shows that DCAS did not randomly conduct field checks. But we are pleased that DCAS agreed with our recommended procedures and indicated that it is now in compliance with most of the areas covered in the memorandum.

**DCAS stated in its response:**

". . . this finding is significantly overstated. First, we have no record of having received the reply memorandum from the Comptroller's Office. The reply was sent to a single individual in DGS who left as part of the severance program approximately one month after the date on this memo."

"Our inspection practices are very close to those recommended in the referenced Comptroller's memo. We currently pre-inspect every repair that costs more than \$450, conduct random pre-inspection of repairs that cost less than \$450, and sample post-inspect as well. The Comptroller memo in question states that '(a) good audit policy . . . should incorporate *some level of field testing*' (italics added) and '. . . we recommend that *randomly conducted field checks* be incorporated into your plan in a manner that ensures that each vendor's work is selected' (italics added) . . ."

"In our opinion, we are in compliance in all areas with the exception that we do not necessarily inspect all vendors, but our random inspections are weighted toward those vendors we do the most business with. . . ."

**Auditors' Comments:**

It is difficult to believe that DCAS has no knowledge of a memo sent to its Director of Audits and Accounts. In any case, as indicated in this report, DCAS did not comply with many of the recommendations listed in the memo.

For example, DCAS did not conduct random field visits to inspect repairs performed by GECFS vendors, as recommended in

the memo. In addition, the memo recommended that DCAS monitor the review of breakdown frequency, which was not implemented by DCAS.

In any case, we are glad that DCAS agreed with our recommended procedures, and that it indicated that it is now in compliance with most of the areas covered in the memorandum.

**City Agencies Did Not Always Obtain Vendor Invoices for Review Prior to Payment**

Three agencies (NYPD, HPD, HRA) disputed this finding. They claimed in the agency response that they provided the missing invoices at the auditors' request. However, as explained in the auditors' comments, the invoices provided to the auditors after the initial request were not relevant for the purpose of the auditors' tests.

**NYPD stated in its response:**

". . . the auditors cited the Department for not having nine (of their sample of 37) sub-vendor invoices for repairs on file. (In the preliminary draft report only eight invoices were listed as missing.) We gave the following explanation to the audit team during their field work and again at the exit meeting. The eight invoices were for repairs done under warranty. There was no need for the Motor Transport Division to review these invoices for price fairness. In addition, we gave the audit team the missing invoices a few days after their request. In discussing this finding at the exit meeting, we offered to give the audit team another copy of the invoices upon their request. They did not request a duplicate copy."

"The auditors also expressed concern that the sub-vendor invoices did not provide a labor/parts breakdown. Lack of this information would make it difficult to avoid overcharges and unnecessary repairs. However, as documented in the attached Automobile Maintenance and Repair Order, our Motor Transport Division does obtain labor and parts charges prior to granting a vendor permission to repair a vehicle (Attachment 1). (There are some repairs such as windshield replacement that do not require a labor/parts breakdown.)"

**HPD stated in its response:**

". . . the draft report indicates that 15 of 42 invoices (36 cent) Y  
and o  
r dit, they were later furnished  
o the auditors. It is HPD's po  
p ailed to provide three percent  
f the requested vendor invoice  
or early all requested invoices and, minimally, that fac  
s port with a statement that HPD  
conducting n

**HRA stated in its response**

" finding. In Table II, . . . of  
draft report, the Office of the Comptroller states tha  
HRA ad been asked for 66 invoices and was able to provid  
only t

**Auditors' Comments**

W the City agencies provided us  
the missing invoices after our test. However, as w  
r t  
for s  
have given us the assurance that the flee  
ad at these agencies had received the necessar  
i them prior to making payments.  
fac t  
s  
we requested them. This further proves that th  
a n

**City Auditors Also Identify Payments for Repeat Repairs on City Vehicles in GECFS Billing Files**

In its response, DCAS used four arguments to dispute this finding. DCAS claims that:

- 1) its investigation of six repeat repairs listed in the report revealed that these repairs were not repeat repairs.
- 2) there is a contradiction in the report since two of the repeat repairs involved NYPD vehicles.
- 3) NYPD's inspection is effective in preventing repeat repairs.
- 4) the actual repeat repairs are statistically insignificant.

In our auditors' comments we show that DCAS did not address the specific repeat repairs we included in the report, nor did it ask to review the GECFS billing file that served as the basis of our tests.

**DCAS stated in its response:**

". . . in response to the above accusation, it is understood that GE Capital reviews the repair database prior to all repairs, with DCAS additionally reviewing the database prior to all repairs that cost more than \$450. The auditors had previously asked us to investigate six separate repair instances that they thought had an appearance of repeat repairs. An investigation of these instances revealed that these instances were not repeat repairs. Curiously, the auditors still cite one of the investigated instances as an example of a repeat repair in the audit. We have previously asked for the supporting documents for the 74 alleged repeat repairs but have not received them. Until DCAS receives detailed documentation on the 74 alleged repeat repairs and can perform a proper investigation, we will be unable to recoup any overpayment due the City."

"We would like to bring to your attention numerous inconsistencies found between this section and other sections of this report. For example, on . . . , the report reads: ' . . . for every vehicle that requires maintenance or repairs, an

YPD staff person first checks  
 r d in the recent past. If there  
 d  
 ently, e  
 evious t  
 air ,  
 The f  
 r these four examples cite NYPD  
 es. e  
 section in which the NYPD is commended on its review  
 process."

Also, . . . , it is suggested to  
 reduce s  
 w s  
 med, l  
 ctually be effective. We serio  
 c every repair instance can ever  
 f  
 3 d

"F the \$11,713 represents only 0.28 percent of the  
 total expenditure of \$4.2 million. This level of error, even  
 correct, appears to be statistically insignificant.  
 f d

audit asked either the individual agencies or GECF  
 m mation to clarify if, in fact,  
 the repairs were repeats. Thus, we will not agree that  
 repeat repairs are chronic, as the report proclaims, because

**Auditors' Comments**

We did not provide DCAS with six instances of repeat repairs  
 i t  
 y  
 d e

T us with any documentation from  
 ECFS or the vendor that this r  
 T '

Acting Director of Fleet Administration and Transportation claiming that this repair was not a repeat repair.

With regard to the supporting documentation for the 74 alleged repeat repairs, we informed DCAS officials during the course of the audit, and after the draft was released, that they were welcome to review the GECFS billing file, which was the basis for our test. As previously stated, this file contains the same information as the vendors' invoices (i.e. vehicle numbers, the dates and descriptions of services provided, the names of the vendors, the repair codes, and related charges). However, DCAS officials have not asked to review the billing file. Furthermore, if DCAS officials had obtained the original invoices and performed a trend analysis as suggested in this audit, they would have been able to determine whether the repairs in question were repeat repair and therefore should have been covered under warranty agreements.

**Auditors' Controlled Field Test Results:**  
**GECFS' Preferred Vendors Frequently Charge**  
**the State and City for Unnecessary Repairs**

In the agency response, DCAS and the Mayor's Office of Operations attempt to dismiss the above finding by challenging the validity of the auditors' field test. The Mayor's Office of Operations claims that the auditors operated outside established procedures by selecting their own vendors to be tested, produced unnatural "rigs", and disallowed many costs that should have been allowed. In addition, the Mayor's Office of Operations claims that there can be no definitive conclusion as to how much of this work was actually unnecessary since "the auditors did not practice 'consumer common sense'" by obtaining the replaced parts to be independently tested. In our auditors' comments, we expand upon the details of our controlled field tests contained in the scope and methodology section of this report, including how we segregated legitimate repairs from unnecessary repairs. We also note that we did not obtain replaced parts because it was not DCAS policy to do so. Therefore, retrieving the parts may have alerted the vendors to our controlled field tests before we had completed our testing at all of the vendors in our sample. This would have compromised the results of our tests.

**The Mayor's Office of Operation stated in its response:**

"The findings of the audit that identify vendor cheating and inadequate monitoring of service are difficult to reconcile with the significant cost savings and increased vehicle performance data. In addition, we believe, and the data supports, that the cost-effective monitoring program played a role in achieving the significant cost savings. Therefore, projecting these results over the universe of contract users, without taking into account each agency's monitoring program, produces a conclusion, based upon generalizations, that is not indicative of individual agency or vendor performance."

"Even apart from the above, there are major concerns about the validity of the field test. The auditors operated outside established procedures by selecting their own vendors, produced unnatural 'rigs,' and disallowed many costs that should have been allowed including diagnostic services and overdue preventive maintenance. In some cases, it appears plausible that the 'rig' itself damaged the vehicle further. In addition, the auditors did not practice 'consumer common sense' as the replaced parts were not retrieved after the 'rig' was fixed and the vehicle was post-inspected by the

contract mechanic. As a result, we could not conduct independent tests to verify the auditors' findings. Furthermore, the auditors did not discuss their preliminary findings with the 'suspect' vendors, GECFS, or DCAS."

In their response, DCAS officials further contended: ". . . there is no question that some vendors will cheat or otherwise be incompetent. Our experience with this program over the past two years has confirmed that, and DCAS has disqualified at least 13 vendors and three national account chains for assorted reasons and have taken many billing adjustments as well. Therefore, if the sole intent of this section was to prove that there are such dishonest vendors, or vendors who are unaware of the City's pricing policy, we would not disagree."

In its response, the Mayor's Office of Operation further stated: "The reported scope of the problem by the auditors, however, at 54 percent of the vendors and almost 25 percent of the costs, far exceeds our experience. OFAT estimates that less than five percent of the cases involve a partial incorrect diagnosis of the problem. . . . of the report, an examination of 209 NYPD inspections indicated that the NYPD found only two instances of incorrect diagnosis by vendors (one percent). It is our opinion that the sting/field test section of the audit is fundamentally flawed."

"It is clear from reviewing the data that the auditors did not fully understand our approach to preventive maintenance, and judged some items as unnecessary which are consistent with our policy and instructions to GE Capital. Furthermore, we do not believe that this sample correlates well to the universe of DCAS work, and the projection of overcharges which resulted in the Citywide overpayment of \$1 million did not account for the effectiveness of the existing monitoring programs."

"The evidence for the sting is basically the word of a single vendor against several others. The qualifications of the expert consultant retained for this purpose are undoubtedly very similar to those who are cited as having cheated or being incompetent. It is clear that by not having obtained the replaced parts to be independently tested, there can be no definitive conclusion as to how much of this work was actually unnecessary."

"Preventive maintenance, by definition, means performing work before a part fails. Corrective maintenance involves fixing what is broken. The DCAS approach to preventive maintenance

s a larger repair, in situations  
we b a

"For ample, . . . of the report, the auditors cite a  
instance s  
oldered in order to repair it. Approximately one month later  
when a  
on d  
uture problems. The auditors cite this as a repeat repair (i  
is not). Because of the high cost of replacing the radiator,  
le e  
of lower price repairs, it is clear to us that a mor  
e will save both time and money  
y ensuring the entire problem  
fixing the symptom."

th g  
requ is a contrived situation, it appears that th  
audito have failed to allow for a logical approach whic  
would e  
auditors say . . . that '. . . the consultan  
misadj the gap on a spark plug . . . (t)he only repai  
requir was to properly gap the malfunctioning spark plug  
with the repair cost estimates at \$45.'" "

s w  
details regarding this vehicle or the repair that wa  
done, a  
ived e

"Also t  
correct this problem were to tighten the alternator belt and  
the battery.' The most common reason for a belt t  
bec loose is due to wear or a seized component  
Furthermore, running a vehicle with a loose belt accelerates  
he wear on the belt. Barring a  
a belt is the most prudent cost of action to avoid  
sec repair visit - but was apparently deemed to b  
unnecessary."

The tests done by the City auditors are similar. For example  
on n  
he #3 cylinder to fail. The vendor noted the bad plug and th

fact that the vehicle was operating poorly. Inspection of other emission components revealed that the #3 wire was shorted, the fuel filter was partially clogged, and several plugs needed replacing. GECFS reviewed the vehicle history noting no tune-ups over the vehicles first 35,000 miles of operation. GECFS directed a tune-up as preventive maintenance in accordance with Chrysler Motors Inc. recommended maintenance for a Dodge Aries at 30,000 miles. This maintenance, which cost approximately \$160, was disallowed as unnecessary by the auditors."

"In other cases, the mechanic disconnected MAP sensor hoses. MAP sensor hoses do not fall off. If a vendor did not suspect that this was a sting, he might consider other reasons why a sensor would be disconnected, necessitating a diagnostic test. These tests were also found to be unnecessary by the auditors. Additionally, we question the validity of having a mechanic disconnect vacuum hoses to the MAP sensor because it is in violation of the Federal Environmental Protection Agency Clean Air Act, Section 203, paragraph (a) United States Code, Title 42, Section 7522(a)(3)(A). Section 7524 of the Code provides for civil penalties for violators of Section 7522, paragraph (a)(3)(A) of no more than \$2,500 for each vehicle affected. Given the Civil penalties involved, why should a vendor assume that this was intentionally done to a City vehicle?"

"To be very clear, we are concerned about the number of MAP sensors replaced, and it appears logical that many may not have needed to be replaced. However, many of the vehicles certified by the expert mechanic were also overdue routine maintenance and inspections, which was apparently overlooked during the initial inspection. Without the replaced parts, it is impossible to state conclusively that these items were not damaged or defective.

"Unfortunately, the MAP sensor is not the only instance where the auditors' mechanic appears to have acted questionably. In other instances, the wires to the alternator were loosened. According to the mechanic this problem should have been corrected by simply tightening the nuts attaching the wire to the alternator and by recharging the battery . . . . However, the loosening of leads to the alternator placed that unit in an immediate position of failure. . . ."

"In these cases we must also consider the possibility that the actions of the expert mechanic may have lead to damage of the vehicles. Once again, without parts to check, we will never be

le e  
" g  
he validity of the sample. . .  
. ice assisted the City auditors  
t e  
r tests were limited to a judgmental selected sample o  
g

"In e City section, however, the repairs deemed to b  
unnecessary are projected out to a Citywide overpayment, and  
r f  
se t  
whether the vendor selection was statistica  
valid or judgmental further undermines the validity of thi  
finding.

should also note that the sting/field test did not fin  
a f  
s e

**Auditors' Comments**

Th methodology employed in selecting the vendors and th  
c lly explained in the Scope and  
operate outside of any established procedures. In addition,  
,  
ccording to the consultant mec  
could be easily diagnosed and repaired at a nominal fee.

urthermore, we allowed all cos  
f ,  
uding e  
ontrolled field test, the audi  
a S vendor, located in Manhattan, to reconnect the MA  
Sensor e  
performed an unnecessary repair by replacing the MA  
Sensor, l  
because the consultant mechanic, during post  
inspection, indicated that the oil change was reasonable and

We did not retrieve the parts because it wasn't DCAS' normal procedure to do so. Therefore, retrieving the parts may have alerted the vendors to our controlled field tests before we had completed our testing at all of the vendors in our sample. This would have compromised the result of our tests.

Furthermore, DCAS is wrong to indicate that our controlled field test is flawed because our review of NYPD inspections found only two instances of incorrect diagnosis out of 209 inspections. What DCAS failed to mention is that the 209 quality assurance reports involved post-inspections of vehicles repaired by GECFS vendors. Post-inspections can not be used to determine whether the repairs performed by GECFS were necessary. Our tests did.

In addition, we disagree with DCAS' response that less than 5% of cases involve a partial incorrect diagnosis. Our review of DCAS' pre-inspection reports for repairs costing \$450 or more indicated that DCAS rejected some of the proposed repairs claiming that the repairs were not necessary. As a result, DCAS itself reduced the total cost for all repairs costing \$450 or more by 15%.

Our review of the case mentioned in DCAS' response involving the vendor who replaced the spark plugs on the State vehicle indicated that the vendor was given credit for replacing the spark plugs. However, the consultant mechanic determined that the other repairs performed on this vehicle were not necessary. For example, in addition to replacing the spark plugs the vendor replaced the coolant sensor and fuel filter and performed other repairs, which added \$110 to the State's bill.

Finally, the objective of our controlled field test was to determine whether the vendor would perform and bill for unnecessary services. As we have stated, we allowed charges for diagnostic services and repairs that were needed. Therefore, the case involving the Map sensor clearly proved our point that the vendor did indeed perform unnecessary repairs. As stated in the report, the GECFS vendor replaced the Map sensor because the vendor claimed the nipple to the map sensor had been cracked by our consultant mechanic. However, after proving to him that this was not the case, he then changed his story and admitted that the nipple may have been cracked by one of his mechanics. If this was the case, why should the City pay for damage caused by the vendor?

GECFS Preferred Vendors Have Numerous Consumer

T s that  
and reviewing DCA records would supplement thei  
monito procedures to identify any of GECFS' vendors wit  
r agency  
esponse quotes DCAS as saying  
regarding GECFS vendors were principally related to sales of used  
a e  
In the auditors' comments we are pleased to note that  
giving n  
DCAS agrees with us that use of such DCA informatio  
would be useful when designing its random repair inspections.

\_\_\_\_\_ :

It is the New York State Depar  
not ,  
at s  
keep complaints about vehicle maintenance. DCA doe  
regulate towing and used car sales, which form the basis for  
l e  
lations s  
discussions with DMV to get information on New Yor  
City maintenance shops."

n its response, DCAS officials stated: ". . . [we] indicate  
that in a memo dated July 29, 1997, the Deputy Director o  
E f Consumer Affairs stated '. .  
on he fax of 7/21/97 . . . found most of the violations t  
h s  
f the tow truck law. The fine amounts on the fax proved to b  
accura but the number of violations was inflated by th  
inclus of both dismissed and guilty decisions in th  
count.' (See Attachment 4)"

DCAS currently does not purchase used cars and therefore wil  
not s  
ontracted for separately, but  
lapses f  
nother, it is possible that we might use a GE Capital vendor  
H ted has ever been used by DCAS

for towing, and it is unlikely that DCAS would ever use any of the vendors with violations for those purposes."

"The idea that we should refrain from using vendors who have unrelated consumer complaints is unwise and potentially illegal. It is almost inevitable that anyone who does business with the public will get complaints. The issue is whether those complaints have merit, and how the vendor addresses them. We should not blacklist vendors based upon unsubstantiated allegations."

"Still, we can agree that having access to information regarding vehicle repair regulation from DMV can potentially be of value in identifying problem vendors. If we are able to secure this information, we will examine it carefully."

**Auditors' Comments:**

While DCA does not regulate automotive repair shops, it does keep records of consumer complaints and violations regarding vendors in New York City including automotive repair shops. Our review of DCA's database showed many consumer complaints against GECFS- preferred vendors.

We found that City agencies do not have adequate control procedures to monitor GECFS vendors. Therefore, we believe that accessing DCA records will supplement their monitoring procedures to identify any of GECFS' vendors with reputations of unfair and unethical business practices. As an aside, we should say that we find DCAS' response to be of some concern. Indeed, the agency seems to be minimizing the fact that some of its vendors have consumer complaints or violations for towing, by arguing that it does not use such services by those vendors. In other words, the agency is saying that it is not worried if a vendor performs dishonestly, as long as the record shows that it is for services other than the ones being purchased.

**City Agencies Did Not Obtain or Review  
GECFS Management Reports**

In its agency response, DCAS states that it receives various GECFS management reports and even subscribes to the "fleet tool" system. However, the response does not detail how DCAS utilizes this material. In the auditors' comments, we describe how, by using our

own analytical tools, we discovered duplicate and warranty repairs for which the City should not have paid.

**The Mayor's Office of Operation stated in its response:**

"At the risk of being repetitive, what is the auditors' point, that DCAS did not share the wisdom of the Comptroller's letter with other agencies or that DCAS does use the management reports to enhance their monitoring of the GECFS? Regardless, DCAS officials further state that "...our inspection and operating procedures for this program were distributed to our client agencies. Clearly, with no record of having received this particular document, we could not share it. Additionally, the memo dealt with specific DGS plans and addressed the Comptroller's concerns about those plans. The other agencies were independent of DGS in this program. In any event, if there were a need to distribute Comptroller's Office information citywide, this would not be our responsibility."

"The auditors have already cited DCAS as one of the few agencies that receives the necessary reports from GECFS. The audit does not mention that DCAS also subscribes to the "fleet tools" system, which allows the maintenance history to be reviewed on an individual vehicle basis. As we previously stated, even if every item is correctly a repeat repair, with a maximum value identified at less than \$12,000 for the entire City and the Housing Authority, this appears to confirm that the current procedures are effective."

"There are many ways to determine if appropriate repairs of good quality are being done. Getting hard copies of GECFS management reports and conducting periodic trend analyses, on a post-audit basis, is only one approach. Since there is no requirement to do this, any other approach that meets the same objective should not be criticized."

**Auditors' Comments:**

While DCAS may have obtained GECFS management reports or subscribed to Fleet Tool System, we question whether DCAS effectively utilized these tools to prevent GECFS from billing the City for repeat repairs.

Specifically, we found that during fiscal year 1996 GECFS billed the City approximately \$580,487 for six of the ten repair categories we reviewed. Our review of the billing records for the six repair categories revealed that the City paid approximately \$34,919.76 (6%) for duplicate repairs; \$11,712.00 of this amount was for duplicate repairs that should have been covered under warranty agreements.

Justifiably, these results lead us to question the effectiveness of DCAS procedure for monitoring GECFS' vendors. In this connection, we recommended that DCAS officials use the management reports available to them through the GECFS contract.

**Five of the Seven City Agencies Did Not Conduct Any Trend Analysis of Vehicle Repair Histories**

The audit indicated that a trend analysis based on GECFS repair reports would help the agencies minimize unnecessary repairs by GECFS vendors. However, in their response, NYPD and HPD claim that they utilize alternative procedures and reports to accomplish the same objective. As indicated in the report and reemphasized in the auditors' comments, we believe that frequent trend analysis, based on GECFS repair reports, is the most effective method for controlling unnecessary repairs by GECFS vendors.

**NYPD stated in its response:**

". . . the auditors noted that we successfully used FAMIS and our own records to identify and minimize unnecessary repairs by sub-vendors. Paradoxically, they criticized our lack of use of certain GE Capital management reports to achieve the same end. However, the FAMIS system combined with our own vendor records, pre and post-inspection procedures, etc. provide a more timely, less expensive source of information to manage fleet repair expenditures than reports from GE Capital."

In response, HPD officials stated: ". . . the auditor  
fail d  
s e  
guidelines recommended by the Comptroller in the draft report  
A d  
HPD's internal controls incorporated quarterly tren  
analysis That point was reiterated in a written procedure  
s r  
997 (Attachment 5). We think a  
the arterly basis of HPD's vehicle repair history review  
w e  
s the annual reviews positively referenced by the auditors i  
the report."

\_\_\_\_\_:

p lso noted that HPD has decided  
incorporate a quarterly trend analysis in its interna  
contro However, we maintain that a more frequent tren  
a y  
minimize unnecessary repairs by  
analysis S  
GECFS management reports provide the flee  
administrators with the following important information:

Exception Report g

- Vehicle Cost Report tailed maintenance history of
  
- \_\_\_\_\_ Cost and Analytical Report e  
of vehicle expenses and activity,  
identify the mileage range of a vehicle wher  
maintenance e

A a  
ned n

**DCAS' Cost Analysis Was Inaccurate**

The audit identified two major flaws with DCAS' cost analysis. First, DCAS understated the number of vehicles maintained by BMV for its cost analysis. This error inflated the average maintenance cost per vehicle maintained by BMV. Second, DCAS did not perform an accurate and complete cost analysis as suggested by OMB's Circular A-76, a Federal government guide which emphasizes the importance of performing accurate cost comparisons prior to contracting out services. These errors inflated the cost savings projected by DCAS. In the agency response, DCAS and the Mayor's Office of operations claim that the cost analysis was accurate since it was based on the number of vehicles that would be serviced under the contract. Furthermore, DCAS claims that all the cost elements listed in Circular A-76 were considered in its cost analysis, or had no impact on its cost analysis. In the auditors' comments we show that the number of vehicles used by DCAS did not represent the number of vehicles actually serviced by BMV during fiscal year 1995. Therefore, using this number to determine the average maintenance cost per vehicle maintained by BMV would produce an average cost unrelated to BMV operations.

**The Mayor's Office of Operations stated in its response**

"We believe that this audit misunderstands and misrepresents the facts surrounding the process, the analysis, and impact of the alleged omissions in the analysis. The decision to contract was not arbitrary. This process took approximately 18 months including a full year in discussion with the affected union. Review of this proposal was done by the Mayor's Office of Operations, the Office of Management and Budget, and the Office of Labor Relations. Overall the process was thoughtful, open, and carefully considered, and many of the issues raised in this audit were discussed and resolved."

**DCAS stated in its response:**

". . . the auditors are maintaining that in Fiscal 1995 a total of 1,193 vehicles were serviced at BMV, 414 more than the 779 vehicles in the cost/benefit analysis. This is misleading and unsupportable."

"The analysis was never based upon how many vehicles were serviced by BMV in Fiscal 1995. The analysis was actually done in Fiscal 1994, and reviewed internally in early Fiscal 1995. Fiscal 1995 was an anomaly, because some of the vehicles which were displaced by the DOS closure were serviced on a temporary

h d  
ow many vehicles would be serviced at BMV if it stayed open.

"Th BMV operation used an obsolete computerized syste  
(FAMIS) to manage its day to day operations. At the core o  
this f  
dividual s

on, the examination of the FAMIS data revealed illogical and  
naccurate data. Combined with  
was being generated by the very mechanics whose jobs were at  
n e

" as researched to determine its  
ary y  
quipment were already maintained under a series of consultan  
contracts. Many other vehicles, which had been maintained at  
OS were, for a period of a couple of months, serviced at BMV  
and en moved onto GE Capital in the fall of 1994. We als  
took t  
eived. s  
esti V

" 4, 1997, that the audit cites  
evidence of the validity of the 1,193 number also state  
t been of questionable quality.'  
s ,

"Generally ,  
k e  
eliability of the data must be  
b Validity and Reliabili  
Systems n  
competent, and relevant evidence that compute  
processed e  
ignificant to the auditor's fi  
regard of whether the data are provided to auditors o  
a e  
d

" n  
Audit Report on the Development of Automated Fleet Managemen

Systems by the Department of General Services and the Mayor's Office of Operations (7A 96-085)' the City auditors found that 'FAMIS Data is Not Reliable' . . . This finding confirmed our judgment about this system and its data."

"The auditors go on to state that their finding of 1,193 vehicles serviced at BMV was corroborated by the Mayors Management Report (MMR), dated September 14, 1994, which states that 'DCAS BMV planned to service 1,333 vehicles in Fiscal year 1995' . . . The MMR does not state this. As we explained to the auditors, at that time all vehicles which did not belong to a major agency and were not reported separately in the MMR were grouped together and reported under DGS. This practice was changed beginning with the September 1995 report. This section reports vehicle inventories. It does not state where they are serviced."

"The report actually states that the total planned inventory of vehicles was 1,606, rather than 1,333 (September 1994 MMR, page 455). The 1,333 vehicles are labeled 'Client-owned.' This number of vehicles, when added to the 'DGS - owned' total of 273, equals the amount labeled 'Total Vehicles - 1,606'. The audit contains no explanation of why the DGS vehicles should be excluded."

"We had previously given the auditors an agency by agency, domicile by domicile, breakdown of the 779 vehicle count. We now also offer, in support of our number, a copy of the GE Capital bill dated, January 1, 1996, (Attachment 5) which shows that 764 vehicles were contracted for maintenance in December 1995. Are the auditors really suggesting that there were more than 400 vehicles left without maintenance once BMV was closed?"

"The suspect information generated by the in-house operation was the source of great difficulty in conducting this analysis. In summary, we believe that the cost analysis is substantially correct. However, the actual cost data indicates that either way, the City saved a substantial amount of money."

"The cost/benefit analysis which was given to the auditors was the one which was prepared for union discussions. A decision was made, prior to this presentation, to include only the direct costs associated with the BMV operation. . . .

\_\_\_\_\_:

the .  
ver, y  
have been resolved.

as indicated in the report, DCAS understated--by 41  
v s serviced by its in-house BMV  
rior to contracting-out. Spec  
fiscal s  
was obtained from a memo from DCAS officials, date  
February 4, 1997. In addition, our review of the MMR, which  
s described by the Mayor as th  
through s  
d e

co that both figures are incorrect. Specifically, DCA  
cla that the first number was based on an unreliabl  
s number which was obtained from

D ,  
e asked DCAS officials to provide us with the exact number o  
vehicl serviced by BMV during fiscal year 1995 regardles  
whether the vehicles were owned by DCAS, its clients, or any  
d n  
he MMR. After numerous requests, DCAS officials finally tol  
us that they could not determine that number.

owever, in its cost analysis D  
an rage of \$3,088 to service each vehicle during fisca  
y average by dividing the total  
associated with operating BMV during fiscal year 199  
[\$2,40 by 779, the number of vehicles it planned t  
con out). DCAS compared this average cost with th  
\$1,682 that it estimated would cost to maintain each vehicle  
nder the GE Capital program.  
it r

problem with DCAS' cost analysis is that 779 does no  
re the number of vehicles actually serviced by BM  
dur fiscal year 1995. If, in fact, BMV serviced 1,19  
veh DCAS understated the number of vehicles by 414 b

using this figure. As a result, the expected saving associated with using GECFS was inflated by about \$714,000.

In summary, DCAS could not determine the number of vehicles serviced by BMV during fiscal year 1995. Without this figure, DCAS could not accurately determine the cost savings, if any, realized from the GE Capital program.

**DCAS stated in its response:**

"Regarding Federal OMB Circular A-76, the audit correctly notes that 'the City is not bound to follow this particular guideline' . . . ."

"The analysis did include contract monitors, though the auditors have apparently judged these to be insufficient. As we stated earlier, we will continue to disagree with this and will make decisions on a cost related basis."

"So far as the other administrative personnel are concerned, as we explained to the auditors, the positions that handled the administration for the BMV operation now oversee contract administration. These were not included in either the BMV or contract costs and have no net effect on the analysis."

"All of the cost elements cited in the audit were either included in the analysis or favor contracting out:

In House Administrative Costs: The same positions that managed the in-house operation also manage the contract. These costs would therefore be the same on both the contracting and in-house sides of the equation. Since there was no incremental cost either way, this was omitted. No impact on the analysis.

Depreciation, Rent, and Insurance Costs: The City does not depreciate its facilities. There were no rented facilities involved. The City is self-insured. There are no guidelines for apportioning the City's judgment and claim costs, or assigning a value for pending complaints against the City, to any operation. In any event, if we were to assign costs to these items, it would raise the cost of the in-house operation, and thereby increase the contracting out benefit.

Maintenance, Repair and Utilities: These were included in the analysis. No impact on the analysis.

Cost of Capital: There was no capital work planned when that analysis was done. However, over the course of many years, there would need to be periodic capital reinvestment in the facility and equipment. This would raise the in-house costs, and increase the contracting out benefit.

Additional Costs: So far as we can tell, there are none. No impact.

Contract Administration Costs: Same as above. The same positions that managed the in-house operation also manage the contract. These costs would therefore be the same on both the contracting and in-house sides of the analysis. Since there was no incremental cost either way, this was omitted. No impact on the analysis.

Monitoring of the Contract: The audit maintains that the amount of monitoring is insufficient and therefore understated. We believe that monitoring pays for itself; that is, it would make little sense to spend more money to avoid lesser costs. Additional monitoring, if justified, should bring the actual contract costs down by more than the cost of the monitoring. Therefore, this would either have no impact on the analysis, or would increase the benefit of contracting out.

Additional Costs: So far as we can tell, there are none. No impact.

One-time Conversion Costs: Not applicable. No impact

Gain/Loss on Disposal or Transfer of Assets: In Fiscal 1994, when the analysis was done, the Department of Finance had estimated the value of the facility at \$2.9 million. Though the facility was ultimately turned over to the Police Department rather than sold, you could legitimately claim that this avoided a cost to the NYPD. This revenue would also increase the benefit of contracting.

Income Tax Deduction: This would capture the benefit of taxes paid by contractors, and would benefit contracting out. As part of Circular A-76, the Federal Government publishes a table of values for estimating tax, New York City does not.

"After assessing the effect of the above, and considering the direct cost improvement which have been discussed earlier in the response, the conclusion is self-evident that contracting-out is significantly less expensive and more efficient than the in-house repair at BMV. The effect of the inclusion of the indirect costs in every case would only increase the savings attributed to the contracting out. The criticism has no effect on the decision to contract out."

**Auditors' Comments:**

As stated earlier, the audit identified two major flaws with DCAS cost analysis. The first flaw which has already been discussed involved the inaccuracy of the number of vehicles included in DCAS' cost analysis. The second flaw is that DCAS did not provide any documentation indicating that it considered all cost elements necessary for a comprehensive cost-comparison.

Prior to contracting out its automotive repair program, DCAS prepared a cost analysis to evaluate the cost-effectiveness of using GECFS instead of its in-house operation to service its vehicles. Our review indicated that DCAS did not take into consideration all the cost elements necessary for a comprehensive cost-comparison. Specifically, we found that DCAS did not include the following six cost elements in its cost analysis:

- The costs for maintenance, repair, utilities, and insurance associated with DCAS in-house operation.
- The costs for new equipment or to replace existing equipment at the BMV facility.
- The one-time conversion costs for the contract administration of monitoring of vendors and training of fleet administrators.
- The additional costs that are applied to unusual or special circumstances.
- The gain or loss costs associated with closing the existing facilities (e.g. supplies and parts that were already purchased by BMV).
- The tax revenue expected from contractors that reduces the net contract costs.

In cost elements in its cost analysis had no impact on these cost consideration favored out. What we question is the complete lack of documentation to support DCAS claim. We did not find any indication in DCA cost that was their impact on the cost-comparison. We believe that such documentation would have helped us to evaluate the true

We have asked DCAS on several occasions to provide us with the provided us with any supporting documents that would enable us to verify its cost-comparison.

We believe that any reviewer of the study so that the study's outcome is as accurate and reliable as possible.

#### 4. CONCLUSION

The audit identified two major problems with the City's privatization project. First, the agencies did not adequately monitor the contractors' performance in delivering services to the City. As a result the City wasted approximately \$1.1 million on unnecessary repairs during fiscal year 1996. Secondly, in their decisions to contract out, the City officials relied on an inaccurate and incomplete cost analysis that overstated the cost saving expected from this privatization project.

As stated earlier, the agency response was very lengthy and critical of practically every finding of the report. However, after an in-depth review of the agencies' arguments, the Comptroller's Office has concluded that the agencies have not disproved the audit findings. The agencies' lengthy response does not deter from the fact that this audit has raised legitimate concerns over the cost-effectiveness of the City's privatization project.

## 5. RECOMMENDATIONS

1) Use City-employed mechanics or other appropriate personnel to conduct inspections of City vehicles before and after they are repaired by sub-vendors.

### Agency Response:

**DCAS Response:** "We are in compliance, unless this recommendation is meant to mean all repairs. Once again, the proper level on monitoring is the level that ensures an acceptable level of service at the lowest overall cost."

**DHS Response:** (Recommendations 1, 2, 3, and 4) "DCAS has assured us that these items are their responsibility."

**HRA Response:** "HRA agrees with this recommendation. Effective July 1, 1997, DCAS has assumed complete responsibility for inspecting our vehicles before and after a sub-contractor repairs them."

**DOT Response:** " Since day one, we have always used City employed mechanics and other appropriate personnel to conduct inspections of City vehicles before and after they are repaired by GE Capital vendors."

### Auditors' Comments:

The audit recommends that DCAS randomly inspect all repairs costing less than \$450. However, DCAS' own procedures require that all repairs costing \$450 or more should be inspected.

2) Develop formal inspection procedures for monitoring sub-vendors. These procedures should include guidelines for the mechanics to follow when documenting the results of the inspections.

### Agency Response:

**DCAS Response:** "Formal procedures have been in place since late Fiscal 1996. We have since further clarified our instructions to ensure written documentation of all inspections and the provision for centralized filing of these forms. These items will be formally incorporated in new procedures which will probably be issued sometime after we have some experience doing business with the GECFS replacement vendor."

**DOT Response:** "We agree that our inspection procedures need to be more specific and our records more detailed and complete. To accomplish this, we will design a new form that will require more specific recording of inspections."

AGENCY RESPONSE

ITY ONT D

facilitate the implementation of the above procedures.

\_\_\_\_\_ :

**R** "We believe that DCAS procedures clearly la  
o ties of the entities involved.  
e were pleased that the audit  
DC monitoring for inspections of work costing more tha  
\$450."

p "Training to implement the above will b  
yees directly involved in this

4 problems identified during the  
tions n

**Agency Response**

**DCAS** "When we believe that sub-vendors are no  
acting in good faith or refuse to abide by City policies, we

**D** "Our method for dealing with problems identifie  
a shop supervisor to notify the  
endor. The issue had to be satisfactorily resolved before th  
s e

office. Since the monthly GE Capital voucher wa  
al matched against individual invoices, this meant tha  
the shop supervisor could block payment for any invoice that  
for services not properly rendered. We intend t  
c n addition, we will now notify

invoice charges and services received."

) Obtain invoices from sub-ven  
parts and labor for all repairs performed, and compare th  
charge to the vendors monthly billing statements to ensur  
that all charges are appropriate.

\_\_\_\_\_ :

**CAS Response:** edures, this should already be  
ne l

**HRA Response:**

compar the driver copies of sub-vendor invoices to th  
v ent to ensure that all charges

for parts and labor are appropriate. All discrepancies will be investigated and unsubstantiated charges will be deleted."

**DOT Response:** "Repair shop invoices have always been matched against the monthly GE Capital voucher and in many cases, adjustments have been made in favor of the agency. This has been one of the strongest parts of our administrative oversight, and we intend to continue."

6) Review the invoices to ensure that parts and labor charges on these invoices are within industry standards. To accomplish this, the fleet administrators should use an industry estimating guide, such as the Mitchell Mechanical Parts and the Labor Estimating Guide.

**Agency Response:**

**DCAS Response:** "DCAS is in compliance with the recommendation."

**HRA Response:** "HRA agrees with this recommendation. HRA will instruct its fleet administrator to review the driver copies of sub-vendor invoices and use an industry-estimating guide to ensure that the charges are within industry standards."

**DOT Response:** "We have not used the estimating guides, but have relied on the common sense and expertise of our supervisors and of the chief supervisor who reviews all the invoices. We did purchase software from Chilton in 1997 for this purpose, but they went out of business before we could train our people and make the program available to all shops. We will continue to pursue available software so that the shop supervisors have price information readily available. In addition, for jobs over \$450, the director or chief supervisor would discuss price information with the maintenance technicians at the vendor and in some cases would be able to get the work done for less than the original quote. Any direct price negotiation was done subsequently between the GE Capital maintenance technician and the repair shop."

**Auditors' Comments:**

The Mitchell Mechanical Parts and Labor Estimating Guide is one of the industry estimating guides suggested in the audit. This guide is inexpensive and users require very little training. However, DOT could use an alternative guide if it believes it could produce the same results as the Mitchell Mechanical Parts and Labor Estimating Guide in a cost effective and efficient manner.

7) Notify the vendor of any excessive charges so that the vendor can direct the sub-vendor to make appropriate price adjustments.

**Agency Response:**

**DCAS Response:** "DCAS is in compliance with the recommendation."

**HRA Response:** "HRA agrees with this recommendation. All discrepancies discovered during our review of the sub-vendor's invoices will be investigated and adjustments will be made where appropriate."

**DOT Response:** "We will notify the vendor (GE Capital) of all such price discrepancies."

8) Obtain management reports, which detail valuable information about the repairs performed on City vehicles. For example, GECFS (or a new vendor) could provide a report, known as the Vehicle Maintenance Detail, which contains a complete maintenance history of each vehicle. These reports could be used to identify repetitive and unnecessary repairs.

**Agency Response:**

**DCAS Response:** "The audit confirmed that OFAT already receives these reports."

**DOT Response:** "We agree and will survey reports made available by the vendor and purchase those that offer useful, relevant and helpful information."

9) Periodically obtain and review the vendors electronic billing files to identify repeat repairs that should have been covered under the warranty agreement.

**Agency Response:**

**DCAS Response:** "OFAT already subscribes to the "Fleet tools" system which allows us to examine and print the complete maintenance history of any of our vehicles from GE Capital's database. We may, however, wish to have these electronic files for other reasons."

**Auditors' Comments:**

We did not review the "Fleet tools" system during the audit. However, the billing file contains the same information as the vendor's invoice, and an indication as to whether GECFS actually billed the City for the repair. Therefore, we

believe this file can help DCAS determine whether it was billed for repeat repairs.

10) Notify the vendor of any repeat repairs to ensure that the sub-vendors honor the warranty agreement. If the fleet administrators note any duplicate repairs that have been erroneously paid for, they should take the necessary steps to re-coup monies from the sub-vendor or the vendor.

**Agency Response:**

**DCAS Response:** "It has been our policy to pursue all incorrect charges.

11) Consider pursuing an affirmative claim against GECFS to recover the projected \$1.1 million in charges for the unnecessary repairs as well as a portion of the monthly administrative charges for services it did not provide.

**Agency Response:**

**DCAS Response:** "We believe that the evidence provided fails to convincingly support this finding. We will, however, request an opinion from the Corporation Counsel in this regard. We also strongly recommend that this section be deleted from the report, or, at a minimum, the names of the affected vendors be removed to avoid potential liability given the weakness of this section."

**Auditors' Comments:**

We have provided DCAS with additional evidence including video tapes to support our findings. We believe the consultant mechanic's inspection reports, the vendor's invoices, and the video tapes of the inspection of the vendor's work during the audit clearly support the audit findings that some of the GECFS vendors billed the City for unnecessary repairs.

12) Review DCA's complaint and violation records to identify sub-vendors with reputations of unfair and unethical business practices. The fleet administrators should also inform the vendor of any sub-vendors with numerous complaints and violations so that the vendor can stop referring City agencies to them.

**Agency Response:**

**Citywide Response:** As discussed, this is not a DCA issue, rather it is a New York State DMV issue. We are exploring ways to get access to this information, and if it becomes

available, we will review it but not for the sole purpose of eliminating these sub-vendors from obtaining City business. I identify the names of the sub-vendors who have been identified as high risk.

**Auditors' Comments**

As noted in the report, repair shops, but it does keep records and relations regarding vendors in New York City including the City's complaint and violation records. We are concerned that vendors may perform dishonestly, regardless of whether these vendors are

13) DCAS and/or other City agencies doing business with GE believe that implementing Recommendation #12 above is not feasible for legal reasons, then it and/or they should consult with the City's Law Department for confirmation of the Controller's

**Agency Response**

**Citywide Response: See above response.**

for another vendor, DCAS should require the vendor to produce reports for all agencies (a report listing vehicle standards); identify the reasons for the increase in activity, a report to identify when maintenance increases, and a report comparing vehicle costs and controlling vehicle maintenance and repair costs.

\_\_\_\_\_ :  
**Response:** The scarcity of reports distributed is because of ongoing problem with

Additionally, not all costs are captured in the GE Capital (or new vendor) system. There are separate contracts for collision work, tires, glass, transmissions and towing. We suspect that into the future, we may continue directly contracting certain repairs where we believe that we can obtain a significantly better price.

"The FAMIS replacement system, the Maintenance Control and Management System (MCMS) will be the repository of all vehicle maintenance information, and will be phased in Citywide over the next two years. This system will have a reporting module which will provide industry standard reports."

**Auditors' Comments:**

Our recommendation has little or nothing to do with FAMIS. The required reports would be produced and distributed by GECFS or the new vendor to the agencies.

15) Reevaluate the cost-effectiveness of using a vendor for the City's automotive repair and maintenance program, taking into consideration all costs related to administering the contract, and the training and supervision of contract personnel.

**Agency Response:**

**DCAS Response:** "As we reported on the body of the report, the cost savings from this initiative have dramatically exceeded our initial estimates. The administrative positions, which were cited as an omission in the audit are actually the same positions who operated BMV, therefore having no net effect on this analysis. Each of the indirect costs from federal OMB Circular A-76 appears to increase the benefit of contracting. Therefore, it is self-evident that no re-evaluation is necessary.

"A suggestion has been made that we should hire many additional monitoring personnel, potentially to the point where all savings would evaporate. Such an excessive level of monitoring would be poor public policy, and a bad business decision. As we stated earlier, monitors should save money, not cost money. We will continue to consider adding monitors, if they continue to drive our overall costs down."

**Auditors' Comments:**

Our point was not whether the cost factors suggested in federal OMB Circular A-76 favored or did not favor contracting out. DCAS needs to provide documentation to support its claim. As stated in the report, there is no indication in DCAS' cost analysis that all cost elements were considered and what their impact was on the cost-comparison. Once again we stress the need for supporting documentation in order to confirm the dramatic cost saving reported by DCAS.

16) Carefully review the audit's findings and incorporate, where applicable, all recommendations contained in the report in the new Request for Proposal (RFP) currently being prepared.

**Agency Response:**

**DCAS Response:** "Because of the length of the report and its numerous inaccuracies, it is impossible to outline everything in the body of the report that we feel is in error or a potential problem. Furthermore, our first try at bidding a City contract, with very extensive control and reporting requirements for vehicle maintenance drew no responsible bidders.

"If we are to procure a City contract which addresses most of our concerns, we may have to limit our requirements to industry standards. For example, though we would prefer to have all bills report parts and labor separately, sometimes an oil change is simply reported as such. We must remember, that our goal is acceptable service at the best price. Otherwise, we will have no choice but to utilize the State contract again."

**Auditors' Comments:**

The audit has raised legitimate concerns over the cost-effectiveness of the City's privatization project. We believe the sixteen recommendations listed in this report, if implemented, would ensure that the City only pays for automotive services actually performed. The agencies did not provide any convincing arguments to weaken the audit findings.

OFFICE OF THE MAYOR  
OFFICE OF OPERATIONS

100 Church Street - 20th Floor  
New York, New York 10007

RANDY M. MASTRO  
Deputy Mayor for Operations

WILLIAM P. CARNEVALE  
Director

(212) 788-1405  
Fax: 788-1665  
TTY: 788-1496

February 3, 1998

Mr. Roger D. Liwer  
Deputy Comptroller for  
Audits & Engineering  
Office of the Comptroller  
161 William Street, Room 200  
New York, NY 10038

**RE:** Draft Audit of New York State and  
New York City's Use of GE Capital Fleet  
Services (GECFS) for Automotive  
Maintenance and Repair  
Audit Number ME96-179A

Dear Mr. Liwer:

The Office of Operations and the seven City agencies included in the above referenced draft audit report, dated January 5, 1998, have reviewed the report. Each agency forwarded a draft response to pertinent audit findings and recommendations to this office. We, in turn, incorporated these comments as well as ours into this letter. We request that this letter be included in the final audit report.

**Overview**

To start, it is disconcerting to read an audit report that only criticizes the actions taken prior to implementing and fully managing the GE Capital program. We believe that most of the critical findings would change if the report also discussed the positive outcomes of the program such as, lower service costs and less downtime per vehicle. For example, the GE Capital initiative has

significantly lowered the vehicle repair costs of the Department of Citywide Administrative (DCAS) managed fleet. Under DCAS' in-house management, maintenance costs an average of \$3,088 annually per vehicle. When comparing this number to the Fiscal 1997 DCAS average annual maintenance cost of \$1,273 per vehicle, DCAS is saving, on average, \$1,815 per vehicle-- a total savings of \$1.4 million per year. Even when comparing the current maintenance cost to that found in the report--\$2,017 per vehicle--there is still an average savings of \$743 per vehicle per year. This represents, at a minimum, cost savings of 36 percent while improving service. The City achieved cost reductions of this magnitude through aggressive management and effective controls on the program.

In addition, service is better and vehicle downtime (the time a vehicle is unavailable for use due to the need for maintenance) has decreased from ten percent to approximately two percent. Under the GE Capital operation, the increase in vehicle availability is equivalent to having 62 additional vehicles available every day on the affected fleet of 779 vehicles. Thus, the auditors' comment that "...the success of any privatization initiative depends almost totally on the quality of the City's management and oversight of the initiative" is accurate and proven by the savings realized to date.

In July of 1997, DCAS assumed contract maintenance management of the Human Resources Administration (HRA), the Department of Housing Preservation and Development (HPD), and the Department of Finance (DOF). DCAS added the Department of Homeless Services (DHS) in October 1997 and the Department of Juvenile Justice (DJJ) in November 1997. These agencies are now subject to DCAS procedures for their GE Capital contract maintenance management. In addition, the Office of Fleet Administration and Transportation (OFAT) will monitor, review billing, and conduct periodic spot checks to ensure accuracy in charges and proper enforcement of warranties. This change should address many of the issues cited in the audit.

## **Introduction**

The report omits a clear breakdown of the number of vehicles and the associated costs for the seven agencies included in the audit. For example, on pages one and four and ES-3, the report states that GECFS billed New York City \$4.2 million for repairs and \$98,900 for administrative fees. However, it does not state that \$1.3 million of this total derives from the New York City Housing Authority (NYCHA) which is not included in the audit. Additionally, on page three, the report only shows the number of vehicles for DCAS and the New York City Police Department (NYPD) but not the number of Department of Transportation (DOT) vehicles. As a result, the number of vehicles (2,074) listed in the audit corresponds to a Fiscal 1996 cost of \$1.8 million. It is misleading to report a \$4.3 million cost relative to these vehicles. We requested at the exit conferences that the auditors include a chart detailing the number of vehicles and the corresponding expenditures for all seven agencies included in the audit; we again make the same request. This information would at least give readers an accurate cost ratio.

Also on page three, the report states that DCAS decided not to service certain agencies' vehicles prior to using the State's contract with GECFS. The report infers that DCAS deliberately disregarded the fleet maintenance needs of other City agencies. First, what is the point of this discussion since the transition between facts is incorrect? Second, the auditors use an "inter-departmental memorandum dated June 6, 1994" as supporting evidence. However, the auditors do not disclose the author of the memo and, to date DCAS officials have not been provided a copy despite numerous requests. Third, this action had nothing to do with the analysis of whether to close the Bureau of Motor Vehicles (BMV) operation; indeed, it was the closure of the Department of Sanitation's (DOS) contracting-in operation that precipitated it. The DOS' closure left agencies exploring other options for their maintenance in May and June of 1994.

IFMS, the City's official accounting system shows that these agencies (HRA, HPD, DHS, and DOF) paid DOS a total of \$710,808 in Fiscal 1993 and \$686,863 in Fiscal 1994 for less than a full year of automotive services. The general consensus was that BMV could not absorb additional work without significantly diminishing service to existing clients since the BMV operation was already experiencing a nine percent downtime. It is true that DCAS and DOS did not conduct a cost analysis to determine if it was cost-effective for these agencies to contract with GECFS upon the shut down of DOS' contracting-in operation; it is also unclear why the auditors think it was DCAS' responsibility to do one.

On page five, paragraph one it states that "...according to its contract with the State and City..." This language is incorrect; New York State holds the contract with GECFS, and New York City agencies write purchase orders against the contract. Please correct this error.

Again on page five, the auditors state that "GECFS does not perform any licensing checks or inspections of the vendors to determine whether they are equipped to perform certain types of repairs." How did the auditors draw this conclusion since the statement is not sourced to a GECFS document or attributed to GECFS officials?

### **Audit Scope, Objectives, and Methodology**

This section of the report does not adequately explain the methodology used to achieve your objectives. For example, what is meant by "the City auditors analyzed, with the assistance of the State auditors, GECFS' computerized billing file pertaining to Fiscal year 1996?" What was the nature of the assistance? Where did this file originate? Was a reliability test performed on the file? If so, who performed it and what were the results? Were GECFS technicians and managers consulted? What was the sample selection method employed for the 10 out of 62 repair categories chosen to test? What was the total universe?

Furthermore, the section discusses that the State and City hired a consultant for the controlled field test, but the selection process is not disclosed. Also, how were the vendors selected for the controlled test? Why do the State auditors indicate that a judgmental sample was used (page 13), while the City auditors say a statistically valid controlled field test was designed (page 44)? If these two different types of samples were, in fact, used, they cannot be combined to yield statistically valid projection to the universe. Also, what is the "specialized audit software" and how was it used? Additionally, how is it that a significant portion of the audit report refers to the cost analysis performed by the City, yet it is not listed as a separate objective? More important, why are these questions not addressed in the section dedicated to explaining the audit objectives, scope, and, methodology? Perhaps the report should go through your quality assurance process to ensure that, in fact, the report follows the U.S. General Accounting Office's Government Auditing Standards, as stated on pages 10 and ES-7 (1994 Revision, Section 7.25).

### **Findings and Recommendations: Summary of Findings**

To summarize the audit's findings prior to the fieldwork details and after a less than adequate statement on methodology is professionally irresponsible. A "cold reader" is left with the impression that the City, as a whole, jumped into this privatization initiative without thoroughly reviewing its options. In fact, it took approximately 18 months of scrutiny and review by various agencies before the first purchase order was written. Then to say that DCAS "erroneously understated the number of vehicles" used to perform the analysis borders on unprofessional and is, indeed, inflammatory.

Furthermore, on page 16 the report highlights that HPD is the one City agency that developed monitoring procedures that avoid payments for repetitive and unnecessary repairs. Strangely though, details of this fact are not found in the body of the report; thus, HPD's comments must be included here: "HPD is generally pleased that the auditors revised their prior draft report to reflect this agency's proactive approach to monitoring vehicle fleet repair activities, effectively ensuring that repetitive and unnecessary repairs were not made."

Finally, the last paragraph states: "Overall, the City Comptroller's audit illustrates how the lack of effective monitoring can impede the effectiveness of a privatization project--in this case the City's use of GECFS' Fleet Maintenance Program. Privatization is not a panacea, and, on its own, does not always reduce costs and/or improve services. The success of any privatization initiative depends greatly on the quality of the City's management and oversight of the initiative. These issues are discussed in more detail in this report." Not only does this paragraph, as well as the entire report, fail to acknowledge the savings realized by the City, a testimony to effective monitoring, it is also, to say the least, audacious to put forth such a paragraph in a report rife with varied

inaccuracies. One would think that such a poorly executed audit would not be sprinkled with such condescending language.

## **Findings**

### **City Agencies Did Not Adequately Monitor GECFS and Its Vendors**

DCAS officials state that "...we will continue to disagree with the auditors with regard to the level of monitoring that is proper for this program. Our discussions with the auditors have indicated that they believe that virtually all repairs should be inspected both before and after they are done. The auditors did not address the question of cost-effectiveness of their proposals in this audit. Monitors should save the City money, not cost the City money. It would make little sense to spend substantial amounts of money in order to avoid lesser costs. The best and most properly managed program is the one which can deliver the acceptable level of service at the lowest overall cost.

DCAS began contracting with GE Capital in December 1995. This audit was announced merely four months after DCAS began using GE Capital, and the time period covered by the audit includes only the first seven months of DCAS operations under the contract (from December 1995 through June 1996). During this period, DCAS was in a start-up mode, and did not formally issue procedures until May 1996. It was important that procedures not be finalized until DCAS had some real experience with the program, so that the procedures could also deal with unanticipated problems."

### **City Agencies Did Not Conduct Pre-Inspections**

DCAS officials state that "...many of the findings of this report regarding inspection stem from the fact that during this period DCAS was not able to produce much documentation for the inspections of repairs that cost less than \$450. The audit should note that, at that time, there was no requirement to document these inspections, and those that were documented were not filed centrally. Therefore, while we are pleased that the audit cites the effectiveness of the DCAS pre-inspection for repairs costing more that \$450 during this period, it does not change the fact that auditing anything during a start-up period is a questionable proposition. The auditors assume that because few of the lesser value inspections could be documented, that these inspections were not done. This is not a valid assumption."

HPD officials stated that "...as we have previously noted in discussions and submissions to the auditors, the lack of physical facilities and budgetary constraints did not permit HPD to exercise such a role in conducting pre-inspections. As an alternative, we did arrange with DGS/DCAS (Office of Fleet

Administration) to conduct periodic pre- and post-inspections of our vehicles on a random selection basis."

DOT officials state that "...the audit claims that DOT officials said that the pre-inspection process had nothing to do with establishing the necessity for the repair. This is certainly not the reason why we created the inspection and authorization forms. From the beginning of the program, we had written procedures for the shops to follow (a point the audit ignores). It is clear from those written instructions that the whole purpose of the pre-inspection is to establish that a repair is needed.

HRA officials state that "HRA agrees with this finding. As of July 1, 1997, the Department of Citywide Administrative Services has assumed total responsibility for performing this function."

### **City Agencies Did Not Conduct Post-Inspections**

DOT officials say that "...the post inspection certification is signed by the shop supervisors. This fact was repeatedly told to the auditors. The report implies that anyone can stamp an invoice. Since the shop supervisor is responsible for the day to day administration of the repairs, his signature certifies that charges on invoices are correct."

HRA officials state that they "...agree with this finding. As of July 1, 1997, DCAS has assumed responsibility for conducting post inspections to ensure that the repairs billed for by GECFS vendors were actually performed."

### **DCAS Did Not Follow NYC Comptroller-Suggested Post-Inspection Process**

DCAS officials state that "...this finding is significantly overstated. First, we have no record of having received the reply memorandum from the Comptroller's Office. The reply was sent to a single individual in DGS who left as part of the severance program approximately one month after the date on this memo.

"As we stated earlier, during the start-up phase of this program, DCAS did not have any written report standards. The auditors have assumed that since we could not produce many inspection reports for repairs valued at less than \$450, that many were not done. This is an invalid assumption because there was also no written reporting requirement. Subsequently, in May 1996, we issued a procedure requiring written reports for repairs costing more than \$450, and have also since required that all inspections be documented similarly and filed centrally. DCAS has also hired additional inspectors, who are performing more inspections.

"Our inspection practices are very close to those recommended in the referenced Comptroller's memo. We currently pre-inspect every repair that costs more than \$450, conduct random pre-inspection of repairs that cost less than \$450, and sample post-inspect as well. The Comptroller memo in question states that "(a) good audit policy...should incorporate some level of field testing" (italics added) and "...we recommend that randomly conducted field checks be incorporated into your plan in a manner that ensures that each vendor's work is selected" (italics added) (page 28).

"The memo also states that '...the quality of the repair work could also be monitored indirectly by carefully reviewing breakdown frequency, or other appropriate measure, for indications that the repair program is deteriorating.' Clearly, the previously mentioned improvements in both cost and vehicle availability indicate that we are monitoring the quality of the repairs, consistent with this memo.

"In our opinion, we are in compliance in all areas with the exception that we do not necessarily inspect all vendors, but our random inspections are weighted toward those vendors we do the most business with. We are currently performing inspections for more than 60 percent of the costs of the maintenance management program. It should also be pointed out that a good deal of the remaining cost does not require inspection because it covers towing, regularly scheduled preventive maintenance, and the installation of vehicle options including sirens, decals, etc.

"Our inspection and operating procedures for this program were distributed to our client agencies. Clearly, with no record of having received this particular document, we could not share it. Additionally, the memo dealt with specific DGS plans, and addressed the Comptroller's concerns about those plans. The other agencies were independent of DGS in this program. In any event, if there were a need to distribute Comptroller's Office information citywide, this would not be our responsibility."

### **City Agencies Did Not Always Obtain Vendor Invoices for Review Prior to Payment**

DCAS officials state that "DCAS performs contract management for a series of agencies for which it has no direct operational control. For this reason, detailed procedures were created which outline the responsibilities of all parties in this process. Under our procedures, copies of the vendor invoices, which are given to the drivers once the vehicle is repaired, are collected by the individual Agency Fleet Coordinators. When the bill from GECFS is received, the pricing for all repairs is reviewed by OFAT, and the bill is also reviewed for those repairs which were authorized by OFAT. After processing requests for billing adjustments for the current month and prior bills, the bill is paid. The GE Capital bill is also

copied and sent to the individual Agency Fleet Coordinators for review against the invoices. Credits and other adjustments are made against the subsequent GE Capital bills."

NYPD officials state that "...the auditors cited the Department for not having nine (of their sample of 37) sub-vendor invoices for repairs on file. (In the preliminary draft report only eight invoices were listed as missing.) We gave the following explanation to the audit team during their field work and again at the exit meeting. The eight invoices were for repairs done under warranty. There was no need for the Motor Transport Division to review these invoices for price fairness. In addition, we gave the audit team the missing invoices a few days after their request. In discussing this finding at the exit meeting, we offered to give the audit team another copy of the invoices upon their request. They did not request a duplicate copy.

"The auditors also expressed concern that the sub-vendor invoices did not provide a labor/parts breakdown. Lack of this information would make it difficult to avoid overcharges and unnecessary repairs. However, as documented in the attached Automobile Maintenance and Repair Order, our Motor Transport Division does obtain labor and parts charges prior to granting a vendor permission to repair a vehicle (Attachment 1). (There are some repairs such as windshield replacement that do not require a labor/parts breakdown.)"

HPD officials state that "...the draft report indicates that 15 of 42 invoices (36 percent) requested by the auditors could not be provided by HPD. It is HPD's position that invoices were always obtained and reviewed prior to payment. The draft report fails to mention that while a number of invoices could not readily be retrieved at the time of the audit, they were later furnished to the auditors. It is HPD's position that it is incorrect to portray this agency as having failed to provide three percent of the requested vendor invoices. In fact, we did provide all or nearly all requested invoices and, minimally, that fact should be noted in the final report with a statement that HPD did routinely obtain such vendor invoices for the purpose of conducting pre-payment reviews as well as for use in conducting quarterly trend analysis reviews."

HRA officials "...disagree with this finding. In Table II, page 32 of the draft report, the Office of the Comptroller states that HRA had been asked for 66 invoices and was able to provide only 56. As evidenced by Attachment 2, HRA provided all but one of the requested receipts."

DOT officials state that "...the chief supervisor spends several days each month reconciling the invoices received from individual shops and the GE Capital voucher. The audit report does not acknowledge this fact. Moreover, DOT does not rely 'sorely on the monthly billing statements' from GE Capital."

DOF "...performed a complete reconciliation of all invoiced amounts and repairs performed on each vehicle before authorizing payment. All discrepancies of more than \$450--the threshold established by the Office of Fleet Administration (OFA)--were reported to OFA for review. If OFA determined that a rebate was due, a Request for Billing Adjustment form was prepared. If no rebate was due, no further action was taken. In any event, OFA notified Finance of the outcome of their review and instructed Finance when recoupment measures had to be taken. Due to Finance's diligent review of the bills, a vendor (49th Street Auto Clinic) was removed from the GE Capital customer list because of overcharging."

### **City Auditors Also Identify Payments for Repeat Repairs on City Vehicles in GECFS Billing Files**

DCAS officials state that "...in response to the above accusation, it is understood that GE Capital reviews the repair database prior to all repairs, with DCAS additionally reviewing the database prior to all repairs that cost more than \$450. The auditors had previously asked us to investigate six separate repair instances that they thought had an appearance of repeat repairs. An investigation of these instances revealed that these instances were not repeat repairs. Curiously, the auditors still cite one of the investigated instances as an example of a repeat repair in the audit. We have previously asked for the supporting documents for the 74 alleged repeat repairs but have not received them. Until DCAS receives detailed documentation on the 74 alleged repeat repairs and can perform a proper investigation, we will be unable to recoup any overpayment due the City."

We would like to bring to your attention numerous inconsistencies found between this section and other sections of this report. For example, on page 21, the report reads: "...for every vehicle that requires maintenance or repairs, an NYPD staff person first checks FAMIS to determine whether the requested repairs were performed in the recent past. If there is a record of a similar repair having been performed recently, the NYPD inspector will determine whether the previous repair was done properly and whether the present repair should be covered under the warranty period." NYPD, therefore, reviews the repair history prior to every repair. The report goes on to give examples of the effectiveness of the NYPD policy. On pages 38-40, the report cites four examples of repeat repairs. However, two of these four examples cite NYPD vehicles. This would appear to be a contradiction with the above section in which the NYPD is commended on its review process.

Also, on page 19, it is suggested that regular trend analyses can reduce the number of repeat repairs. While in theory, this could help catch repeat repairs, the experience of the NYPD, which examines the repair history for each repair before it is performed, raises serious questions as to whether this will actually be effective. We seriously doubt that the additional cost associated with reviewing

every repair instance can ever be cost-effective, especially given the maximum value of \$11,713 identified by the auditors for the entire City and NYCHA.

Finally, the \$11,713 represents only 0.28 percent of the total expenditure of \$4.2 million. This level of error, even if correct, appears to be statistically insignificant. A finding that GECFS failed to honor its contract in this regard cannot be supported. Indeed, there is no indication that the auditors asked either the individual agencies or GECFS management for additional information to clarify if, in fact, all the repairs were repeats. Thus, we will not agree that repeat repairs are chronic, as the report proclaims, because the auditors do not show cause.

**Auditors' Controlled Field Test Results: GECFS' Preferred Vendors Frequently Charge the State and City for Unnecessary Repairs  
GECFS Vendors Performed More Than \$1 Million in Unnecessary Repair~**

The findings of the audit that identify vendor cheating and inadequate monitoring of service are difficult to reconcile with the significant cost savings and increased vehicle performance data. In addition, we believe, and the data supports, that the cost-effective monitoring program played a role in achieving the significant cost savings. Therefore, projecting these results over the universe of contract users, without taking into account each agency's monitoring program, produces a conclusion, based upon generalizations, that is not indicative of individual agency or vendor performance.

Even apart from the above, there are major concerns about the validity of the field test. The auditors operated outside established procedures by selecting their own vendors, produced unnatural "rigs," and disallowed many costs that should have been allowed including diagnostic services and overdue preventive maintenance. In some cases, it appears plausible that the "rig" itself damaged the vehicle further. In addition, the auditors did not practice "consumer common sense" as the replaced parts were not retrieved after the "rig" was fixed and the vehicle was post-inspected by the contract mechanic. As a result, we could not conduct independent tests to verify the auditors' findings. Furthermore, the auditors did not discuss their preliminary findings with the "suspect" vendors, GECFS, or DCAS.

DCAS officials contend that "...there is no question that some vendors will cheat or otherwise be incompetent. Our experience with this program over the past two years has confirmed that, and DCAS has disqualified at least 13 vendors and three national account chains for assorted reasons and have taken many billing adjustments as well. Therefore, if the sole intent of this section was to prove that there are such dishonest vendors, or vendors who are unaware of the City's pricing policy, we would not disagree.

"The reported scope of the problem by the auditors, however, at 54 percent of

the vendors and almost 25 percent of the costs, far exceeds our experience. O FAT estimates that less than five percent of the cases involve a partial incorrect diagnosis of the problem. On page 54 of the report, an examination of 209 NYPD inspections indicated that the NYPD found only two instances of incorrect diagnosis by vendors (one percent). It is our opinion that the sting/field test section of the audit is fundamentally flawed.

"It is clear from reviewing the data that the auditors did not fully understand our approach to preventive maintenance, and judged some items as unnecessary which are consistent with our policy and instructions to GE Capital. Furthermore, we do not believe that this sample correlates well to the universe of DCAS work, and the projection of overcharges which resulted in the Citywide overpayment of \$1 million did not account for the effectiveness of the existing monitoring programs.

"The evidence for the sting is basically the word of a single vendor against several others. The qualifications of the expert consultant retained for this purpose are undoubtedly very similar to those who are cited as having cheated or being incompetent. It is clear that by not having obtained the replaced parts to be independently tested, there can be no definitive conclusion as to how much of this work was actually unnecessary.

"Preventive maintenance, by definition, means performing work before a part fails. Corrective maintenance involves fixing what is broken. The DCAS approach to preventive maintenance sometimes involves authorizing a larger repair, in situations where we believe it will save both time and money over a longer term.

"For example. on page 39 of the report, the auditors cite an instance of a vehicle where a leak in the radiator was soldered in order to repair it. Approximately one month later, when a different section of the radiator sprang a leak, a decision was made to replace the entire radiator, to avoid future problems. The auditors cite this as a repeat repair (it is not). Because of the high cost of replacing the radiator, the lesser repair was initially authorized. However, in the case of lower price repairs, it is clear to us that a more extensive repair done initially will save both time and money by ensuring the entire problem is addressed, rather than only fixing the symptom.

"In the sting, however, anything more extensive than fixing the symptom is deemed to be unnecessary. Because each repair required is a contrived situation, it appears that the auditors have failed to allow for a logical approach which would ensure that the problem was fixed. For example:

The State auditors say on page 45 that ' . . . the consultant misadjusted the gap on a spark plug . . . (t)he only repair required was to properly

gap the malfunctioning spark plug, with the repair cost estimates at \$45'. Is there any natural situation, other than a sting, where a single spark plug would become ungapped? Though we do not know the details regarding

this vehicle or the repair that was done, it seems to us that unless the vendor suspected a contrived situation, the symptom would indicate a more extensive repair was needed.

Also on the same page 45, the State auditors say that 'the consultant loosened the alternator belt . . . (t)he actions required to correct this problem were to tighten the alternator belt and recharge the battery.' The most common reason for a belt to become loose is due to wear or a seized component. Furthermore, running a vehicle with a loose belt accelerates the wear on the belt. Barring a 'seized component', replacing a worn belt is the most prudent cost of action to avoid a second repair visit - but was apparently deemed to be unnecessary.

"The tests done by the City auditors are similar. For example, on one vehicle the expert mechanic rigged the spark plug on the #3 cylinder to fail. The vendor noted the bad plug and the fact that the vehicle was operating poorly. Inspection of other emission components revealed that the #3 wire was shorted, the fuel filter was partially clogged, and several plugs needed replacing. GECFS reviewed the vehicle history noting no tune-ups over the vehicles first 35,000 miles of operation. GECFS directed a tune-up as preventive maintenance in accordance with Chrysler Motors Inc. recommended maintenance for a Dodge Aries at 30,000 miles. This maintenance, which cost approximately \$160, was disallowed as unnecessary by the auditors.

"In other cases, the mechanic disconnected MAP sensor hoses. MAP sensor hoses do not fall off. If a vendor did not suspect that this was a sting, he might consider other reasons why a sensor would be disconnected, necessitating a diagnostic test. These tests were also found to be unnecessary by the auditors.

Additionally, we question the validity of having a mechanic disconnect vacuum hoses to the MAP sensor because it is in violation of the Federal Environmental Protection Agency Clean Air Act, Section 203, paragraph (a) United States Code, Title 42, Section 7522(a)(3)(A). Section 7524 of the Code provides for civil penalties for violators of Section 7522, paragraph (a)(3)(A) of no more than \$2,500 for each vehicle affected. Given the Civil penalties involved, why should a vendor assume that this was intentionally done to a City vehicle?

"To be very clear, we are concerned about the number of MAP sensors replaced, and it appears logical that many may not have needed to be replaced. However, many of the vehicles certified by the expert mechanic were also overdue routine maintenance and inspections, which was apparently overlooked during the initial inspection. Without the replaced parts, it is impossible to state conclusively that these items were not damaged or defective.

"Unfortunately, the MAP sensor is not the only instance where the auditors' mechanic appears to have acted questionably. In other instances, the wires to the alternator were loosened. According to the mechanic this problem should have been corrected by simply tightening the nuts attaching the wire to the alternator and by recharging the battery (page 49). However, the loosening of leads to the alternator placed that unit in an immediate position of failure. The following technical references (Attachment 3) are cited:

Robert Bosch Inc. Technical Instruction Alternators states: 'Over voltage may occur in the vehicle electrical system as a result of . . . the switching off of predominantly inductive loads, loose connections and breaks in cables. It is frequently a question of voltage peaks, i.e., over-voltages which last only a matter of milliseconds .... voltage peaks also occur if, with the engine running, the connection between the alternator and battery is interrupted . . . In order to prevent dangerous voltage peaks, a vehicle alternator must not under normal driving conditions be operated without a battery. Please note that this can happen in a matter of milliseconds.'

Motorola Basic Electronic Regulator Theory Pamphlet 25-139 states: 'A Load Dump is the term given to the harmful condition which occurs when the output of the alternator is opened or broken while the unit is operating. Normally, the battery presents a constant load to the charging system to stabilize the output voltage. However, when the output circuit is disconnected (especially at high loads), as may occur with a broken wire or a loose connection, a high voltage pulse (transient) is generated at the alternator output . . . due to the collapsing magnetic flux (stored energy) in the field windings. This momentary pulse . . . can be as high as 400 volts . . . and will generally result in damage to the regulator . . . and sometimes the alternator.'

AC Alternator and Auto Electric Inc.. Northern Orange County. California A C Alternator Tips (Web site [HTTP://209.130.46.178/tips.htm](http://209.130.46.178/tips.htm)) states: 'Below you will find a list of different reasons why your old alternator or starter could have been damaged . . . Loose or broken ground...loose battery terminal on the alternator.'

"In these cases we must also consider the possibility that the actions of the expert mechanic may have lead to damage of the vehicles. Once again, without parts to check, we will never be able to definitively determine if these repairs were necessary.

"Furthermore, there appears to be some disagreement concerning the validity of the sample. Page ES-9 of the report states that . . . the State Comptroller's Office assisted the City auditors in deciding which vendors to include in the

controlled field test.... On page 45, the State auditors conclude: '... since the tests were limited to a judgmental selected sample of repair shops, it cannot be concluded that shops are performing and billing for unnecessary repairs 50 percent of the time.'

"In the City section, however, the repairs deemed to be unnecessary are projected out to a Citywide overpayment, and a recommendation is made that we should examine recovery of these monies from GE Capital. The apparent disagreement concerning whether the vendor selection was statistically valid or judgmental further undermines the validity of this finding.

"We should also note that the sting/field test did not find any instances of repairs having been charged, but not done. If this were a representative sample, and if that problem were widespread, it should have been indicated by the test."

### **Department of Consumer Affairs Records Show that GECFS Preferred Vendors Have Numerous Consumer Violations and Complaints**

It is the New York State Department of Motor Vehicles (DMV), not the New York City Department of Consumer Affairs (DCA), that regulates vehicle maintenance. DCA furthermore, does not keep complaints about vehicle maintenance. DCA does regulate towing and used car sales, which form the basis for all but one-- which is for an octane violation--of the violations discussed in this section of the audit. DCAS has opened discussions with DMV to get information on New York City maintenance shops.

DCAS officials "...indicate that in a memo dated July 29, 1997, the Deputy Director of Enforcement of the Department of Consumer Affairs stated '...(a) review of DCA records for the eleven vendors submitted on the fax of 7/21/97 (page 63) found most of the violations to have been issued several years ago, and to involve infractions of the tow truck law. The fine amounts on the fax proved to be accurate, but the number of violations was inflated by the inclusion of both dismissed and guilty decisions in the count.' (Attachment 4)

"DCAS currently does not purchase used cars and therefore will not be using these vendors for that purpose. Towing is contracted for separately, but in a true emergency, or during lapses between the end of one contract and the beginning of another, it is possible that we might use a GE Capital vendor. However, none of the vendors cited has ever been used by DCAS for towing, and it is unlikely that DCAS would ever use any of the vendors with violations for those purposes.

"The idea that we should refrain from using vendors who have unrelated consumer complaints is unwise and potentially illegal. It is almost inevitable that anyone who does business with the public will get complaints. The issue is whether those complaints have merit, and how the vendor addresses them. We

should not blacklist vendors based upon unsubstantiated allegations.

"Still, we can agree that having access to information regarding vehicle repair regulation from DMV can potentially be of value in identifying problem vendors. If we are able to secure this information, we will examine it carefully."

### **City Agencies Did Not Obtain or Review GECFS Management Reports**

At the risk of being repetitive, what is the auditors' point, that DCAS did not share the wisdom of the Comptroller's letter with other agencies or that DCAS does use the management reports to enhance their monitoring of the GECFS?

Regardless, DCAS officials further state that "...our inspection and operating procedures for this program were distributed to our client agencies. Clearly, with no record of having received this particular document, we could not share it. Additionally, the memo dealt with specific DGS plans and addressed the Comptroller's concerns about those plans. The other agencies were independent of DGS in this program. In any event, if there were a need to distribute Comptroller's Office information citywide, this would not be our responsibility.

"The auditors have already cited DCAS as one of the few agencies that receives the necessary reports from GECFS. The audit does not mention that DCAS also subscribes to the "fleet tools" system, which allow the maintenance history to reviewed on an individual vehicle basis. As we previously stated, even if every item is correctly a repeat repair, with a maximum value identified at less that \$12,000 for the entire City and the Housing Authority, this appears to confirm that the current procedures are effective.

"There are many ways to determine if appropriate repairs of good quality are being done. Getting hard copies of GECFS management reports and conducting periodic trend analyses, on a post-audit basis, is only one approach. Since there is no requirement to do this, any other approach that meets the same objective should not be criticized."

### **Five of the Seven City Agencies Did Not Conduct Any Trend Analysis of Vehicle Repair Histories**

NYPD officials state that "...the auditors noted that we successfully used FAMIS and our own records to identify and minimize unnecessary repairs by sub-vendors. Paradoxically, they criticized our lack of use of certain GE Capital management reports to achieve the same end. However, the FAMIS system combined with our own vendor records, pre and post-inspection procedures, etc. provide a more timely, less expensive source of information to manage fleet repair expenditures than reports from GE Capital."

HPD officials state that "...the auditors fail to mention that HPD has, since July 1, 1996, conducted this analysis on a quarterly basis, which conforms with the guidelines recommended by the Comptroller in the draft report. At our August 8, 1997 meeting with the auditors, we emphasized that HPD's internal controls incorporated quarterly trend analyses. That point was reiterated in a written procedures statement sent to the auditors, at their request, in September 1997 (Attachment 5). We think any final report should reflect the quarterly basis of HPD's vehicle repair history reviews which are, qualitatively and in terms of their scope, the same as the annual reviews positively referenced by the auditors in the report."

HRA officials "...agree with this finding. HRA will request from DCAS the reports necessary, to conduct this analysis. Upon receipt of the reports, HRA will perform the analysis on a quarterly basis."

### **DCAS' Cost Analysis Was Inaccurate**

We believe that this audit misunderstands and misrepresents the facts surrounding the process, the analysis, and impact of the alleged omissions in the analysis. The decision to contract was not arbitrary. This process took approximately 18 months including a full year in discussion with the affected union. Review of this proposal was done by the Mayor's Office of Operations, the Office of Management and Budget, and the Office of Labor Relations. Overall the process was thoughtful, open, and carefully considered, and many of the issues raised in this audit were discussed and resolved.

DCAS officials contend that "...the auditors are maintaining that in Fiscal 1995 a total of 1,193 vehicles were serviced at BMV, 414 more than the 779 vehicles in the cost/benefit analysis. This is misleading and unsupported.

"The analysis was never based upon how many vehicles were serviced by BMV in Fiscal 1995. The analysis was actually done in Fiscal 1994, and reviewed internally in early Fiscal 1995. Fiscal 1995 was an anomaly, because some of the vehicles which were displaced by the DOS closure were serviced on a temporary, basis at BMV. By the fall of Fiscal 1995, these agencies all had their GE Capital program in place. This analysis estimated how many vehicles would be serviced at BMV if it stayed open.

"The BMV operation used an obsolete computerized system (FAMIS) to manage its day to day operations. At the core of this system, the entry of the data regarding the repair of individual vehicles, including parts and labor charges, was done as directed by the mechanics performing the work. Early on, the examination of the FAMIS data revealed illogical and inaccurate data. Combined with the realization that this data was being generated by the yew, mechanics whose jobs were at risk for this privatization, it was determined that we could not

rely on this data for this analysis, and needed to explore alternative ways of assessing the work done at BMV.

"Therefore, each client fleet was researched to determine its primary maintenance location. Most of the trucks and heavy equipment were already maintained under a series of consultant contracts. Many other vehicles, which had been maintained at DOS were, for a period of a couple of months, serviced at BMV, and then moved onto GE Capital in the fall of 1994. We also took into account additional vehicles ordered but not received. The result, a total estimate of 799 vehicles, was our estimate of how many vehicles would be serviced at BMV into the future.

"The memorandum dated, February 4, 1997, that the audit cites as evidence of the validity of the 1,193 number also states that 'FAMIS data, overall, has been of questionable quality.' This information comes from the lowest level of FAMIS data, the work order. It has not been validated.

"Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book clearly requires that the reliability of the data must be assessed before a finding can be made. Validity and Reliability of Data from Computer Based Systems (§6.62) states that 'auditors should obtain sufficient, competent, and relevant evidence that computer processed data are valid and reliable when those data are significant to the auditor's findings. This work is necessary regardless of whether the data are provided to auditors or auditors independently extract them. Auditors should determine if other auditors have worked to establish the validity and reliability of the data.'

"In fact, other City auditors had already done these tests. In 'Audit Report on the Development of Automated Fleet Management Systems by the Department of General Services and the Mayor's Office of Operations (7A 96-085)' the City auditors found that 'FAMIS Data is Not Reliable' (pages ES-5 and 11). This finding confirmed our judgment about this system and its data.

"The auditors go on to state that their finding of 1,193 vehicles serviced at BMV was corroborated by the Mayor's Management Report (MMR), dated September 14, 1994, which states that 'DCAS BMV planned to service 1,333 vehicles in Fiscal year 1995' (page 72). The MMR does not state this. As we explained to the auditors, at that time all vehicles which did not belong to a major agency and were not reported separately in the MMR were grouped together and reported under DGS. This practice was changed beginning with the September 1995 report. This section reports vehicle inventories. It does not state where they are serviced.

"The report actually states that the total planned inventory of vehicles was 1,606, rather than 1,333 (September 1994 MMR, page 455). The 1,333 vehicles are

labeled 'Client-owned.' This number of vehicles, when added to the 'DGS-owned' total of 273, equals the amount labeled 'Total Vehicles - 1,606'. The audit contains no explanation of why the DGS vehicles should be excluded.

"We had previously given the auditors an agency by agency, domicile by domicile, breakdown of the 779 vehicle count. We now also offer, in support of our number, a copy of the GE Capital bill dated, January 1, 1996, (Attachment 5) which shows that 764 vehicles were contracted for maintenance in December 1995. Are the auditors really suggesting that there were more than 400 vehicles left without maintenance once BMV was closed ?

"The suspect information generated by the in-house operation was the source of great difficulty in conducting this analysis. In summary, we believe that the cost analysis is substantially correct. However, the actual cost data indicates that either way, the City saved a substantial amount of money.

"The cost/benefit analysis which was given to the auditors was the one which was prepared for union discussions. A decision was made, prior to this presentation, to include only the direct costs associated with the BMV operation. Regarding Federal OMB Circular A-76, the audit correctly notes that 'the City is not bound to follow this particular guideline' (page 68).

"The analysis did include contract monitors, though the auditors have apparently judged these to be insufficient. As we stated earlier, we will continue to disagree with this and will make decisions on a cost related basis.

"So far as the other administrative personnel are concerned, as we explained to the auditors, the positions that handled the administration for the BMV operation now oversee contract administration. These were not included in either the BMV or contract costs and have no net effect on the analysis.

"All of the cost elements cited in the audit were either included in the analysis or favor contracting out:

In House Administrative Costs: The same positions that managed the in-house operation also manage the contract. These costs would therefore be the same on both the contracting and in-house sides of the equation. Since there was no incremental cost either way, this was omitted. No impact on the analysis.

Depreciation, Rent, and Insurance Costs: The City does not depreciate its facilities. There were no rented facilities involved. The City is self-insured. There are no guidelines for apportioning the City's judgment and claim costs, or assigning a value for pending complaints against the City, to any operation. In any event, if we were to assign costs to these items, it would

raise the cost of the in-house operation. and thereby increase the contracting out benefit.

Maintenance, Repair and Utilities: These were included in the analysis. No impact on the analysis.

Cost of Capital: There was no capital work planned when that analysis was done. However, over the course of many years, there would need to be periodic capital reinvestment in the facility and equipment. This would raise the in-house costs, and increase the contracting out benefit.

Additional Costs: So far as we can tell, there are none. No impact.

Contract Administration Costs: Same as above. The same positions that managed the in-house operation also manage the contract. These costs would therefore be the same on both the contracting and in-house sides of the analysis. Since there was no incremental cost either way, this was omitted. No impact on the analysis.

Monitoring of the Contract: The audit maintains that the amount of monitoring is insufficient and therefore understated. We believe that monitoring pays for itself; that is, it would make little sense to spend more money to avoid lesser costs. Additional monitoring, if justified, should bring the actual contract costs down by more than the cost of the monitoring. Therefore, this would either have no impact on the analysis. or would increase the benefit of contracting out.

Additional Costs: So far as we can tell, there are none. No impact.

One-time Conversion Costs: Not applicable. No impact

Gain/Loss on Disposal or Transfer of Assets: In Fiscal 1994, when the analysis was done, the Department of Finance had estimated the value of the facility at \$2.9 million. Though the facility was ultimately turned over to the Police Department rather than sold, you could legitimately claim that this avoided a cost to the NYPD. This revenue would also increase the benefit of contracting.

Income Tax Deduction: This would capture the benefit of taxes paid by contractors, and would benefit contracting out. As part of Circular A-76, the Federal Government publishes a table of values for estimating tax, New York City does not.

"After assessing the effect of the above, and considering the direct cost improvement which have been discussed earlier in the response, the conclusion

is self-evident that contracting-out is significantly less expensive and more efficient than the in-house repair at BMV. The effect of the inclusion of the indirect costs in every case would only increase the savings attributed to the contracting out. The criticism has no effect on the decision to contract out."

## **Recommendations**

1 ) Use City-employed mechanics or other appropriate personnel to conduct inspections of City vehicles before and after they are repaired by sub-vendors.

DCAS Response: "We are in compliance, unless this recommendation is meant to mean all repairs. Once again, the proper level on monitoring is the level that ensures an acceptable level of service at the lowest overall cost."

DHS Response: (Recommendations 1, 2, 3, and 4) "DCAS has assured us that these items are their responsibility."

HRA Response: "HRA agrees with this recommendation. Effective July 1, 1997, DCAS has assumed complete responsibility for inspecting our vehicles before and after a sub-contractor repairs them."

DOT Response: " Since day one, we have always used City employed mechanics and other appropriate personnel to conduct inspections of City vehicles before and after they are repaired by GE Capital vendors."

2) Develop formal inspection procedures for monitoring sub-vendors. These procedures should include guidelines for the mechanics to follow when documenting the results of the inspections.

DCAS Response: "Formal procedures have been in place since late Fiscal 1996. We have since further clarified our instructions to ensure written documentation of all inspections and the provision for centralized filing of these forms. These items will be formally incorporated in new procedures which will probably be issued sometime after we have some experience doing business with the GECFS replacement vendor." ~

DOT Response: "We agree that our inspection procedures need to be more specific and our records more detailed and complete. To accomplish this, we will design a new form that will require more specific recording of inspections."

3) Provide training to fleet administrators and mechanics to facilitate the implementation of the above procedures.

DCAS Response: "We believe that DCAS procedures clearly lay out the respective responsibilities of the entities involved. We were pleased that the audit cited the effectiveness of the DCAS monitoring for inspections of work costing more than \$450."

DOT Response: "Training to implement the above will be provided to all levels of employees directly involved in this program."

4) Notify the vendor about any problems identified during the inspections so that the appropriate action can be taken against the sub-vendors.

DCAS Response: "When we believe that sub-vendors are not acting in good faith or refuse to abide by City policies, we have notified the vendor for appropriate action."

DOT Response: "Our method for dealing with problems identified after work we done was for the shop supervisor to notify the vendor. The issue had to be satisfactorily resolved before the supervisor would sign off on the invoice and forward it to the central office. Since the monthly GE Capital voucher was always matched against individual invoices, this meant that the shop supervisor could block payment for any invoice that charged for services not properly rendered. We intend to continue with this procedure. In addition, we will now notify the vendor in all cases where there is a discrepancy between invoice charges and services received."

5) Obtain invoices from sub-vendors detailing the charges for parts and labor for all repairs performed, and compare the charges to the vendors monthly billing statements to ensure that all charges are appropriate.

DCAS Response: "Under DCAS procedures, this should already be done by the individual Agency Fleet Coordinators. We will issue a reminder about this important process."

HRA Response: "HRA agrees with this recommendation. HRA will compare the driver copies of sub-vendor invoices to the vendor's monthly billing statement to ensure that all charges for parts and labor are appropriate. All discrepancies will be investigated and unsubstantiated charges will be deleted."

DOT Response: "Repair shop invoices have always been matched against the monthly GE Capital voucher and in many cases, adjustments have been made in favor of the agency. This has been one of the strongest parts of our administrative oversight, and we intend to continue."

6) Review the invoices to ensure that parts and labor charges on these invoices are within industry standards. To accomplish this, the fleet administrators should use an industry estimating guide, such as the Mitchell Mechanical Parts and the Labor Estimating Guide.

DCAS Response: "DCAS is in compliance with the recommendation."

HRA Response: "HRA agrees with this recommendation. HRA will instruct its fleet administrator to review the driver copies of sub-vendor invoices and use an industry-estimating guide to ensure that the charges are within industry standards."

DOT Response: "We have not used the estimating guides, but have relied on the common sense and expertise of our supervisors and of the chief supervisor

who reviews all the invoices. We did purchase software from Chilton in 1997 for this purpose, but they went out of business before we could train our people and make the program available to all shops. We will continue to pursue available software so that the shop supervisors have price information readily available. In addition, for jobs over \$450, the director or chief supervisor would discuss price information with the maintenance technicians at the vendor and in some cases would be able to get the work done for less than the original quote. Any direct price negotiation was done subsequently between the GE Capital maintenance technician and the repair shop."

7) Notify the vendor of any excessive charges so that the vendor can direct the sub-vendor to make appropriate price adjustments.

DCAS Response: "DCAS is in compliance with the recommendation."

HRA Response: "HRA agrees with this recommendation. All discrepancies discovered during our review of the sub-vendor's invoices will be investigated and adjustments will be made where appropriate."

DOT Response: "We will notify the vendor (GE Capital) of all such price discrepancies."

8) Obtain management reports, which detail valuable information about the repairs performed on City vehicles. For example, GECFS (or a new vendor) could provide a report, known as the Vehicle Maintenance Detail, which contains a complete maintenance history of each vehicle. These reports could be used to identify repetitive and unnecessary repairs.

DCAS Response: "The audit confirmed that OFAT already receives these reports."

DOT Response: "We agree and will survey reports made available by the vendor and purchase those that offer useful, relevant and helpful information."

9) Periodically obtain and review the vendors electronic billing files to identify repeat repairs that should have been covered under the warranty agreement.

DCAS Response: "OFAT already subscribes to the "Fleet tools" system which allows us to examine and print the complete maintenance history of any of our vehicles from GE Capital's database. We may, however, wish to have these electronic files for other reasons."

10) Notify the vendor of any repeat repairs to ensure that the sub-vendors honor the warranty agreement. If the fleet administrators note any duplicate repairs that have been erroneously paid for, they should take the necessary steps to recoup monies from the sub-vendor or the vendor.

DCAS Response: "It has been our policy to pursue all incorrect charges.

11) Consider pursuing an affirmative claim against GECFS to recover the projected \$1.1 million in charges for the unnecessary repairs as well as a portion of the monthly administrative charges for services it did not provide.

DCAS Response: "We believe that the evidence provided fails to convincingly support this finding. We will, however, request an opinion from the Corporation Counsel in this regard. We also strongly recommend that this section be deleted from the report, or, at a minimum, the names of the affected vendors be removed to avoid potential liability given the weakness of this section."

12) Review DCA's complaint and violation records to identify sub-vendors with reputations of unfair and unethical business practices. The fleet administrators should also inform the vendor of any sub-vendors with numerous complaints and violations so that the vendor can stop referring City agencies to them.

Citywide Response: As discussed, this is not a DCA issue, rather it is a New York State DMV issue. We are exploring ways to get access to this information, and if it becomes available, we will review it but not for the sole purpose of eliminating these sub-vendors from obtaining City business. It is already our custom to inform GECFS of sub-vendors that have not performed to our standards, and they have been removed from the preferred vendors list.

13) If DCAS and/or other City agencies doing business with GECFS believe that implementing Recommendation #12 above is not feasible for legal reasons, then it and/or they should obtain a written legal opinion from the City's Law Department confirming that position, and forward that opinion to the Comptroller's Office along with the formal response to the draft audit.

**Citywide Response: See above response.**

14) Regardless of whether a new contract is awarded to GECFS or another vendor, DCAS should require the vendor to produce the following management reports and to provide them to agencies routinely on a specified periodic basis: Exception Report (a report listing vehicles performing outside of fleet standards); Vehicle Cost Report (a detailed maintenance history of each vehicle); and Fleet Cost and Analytical Reports (a year to date summary of vehicle expenses and activity, a report to identify the mileage range of a vehicle where maintenance increases, and a report comparing vehicle costs by make and model.) These management reports could assist DCAS and other City agency fleet administrators in identifying and controlling vehicle maintenance and repair costs.

DCAS Response: "The major reason why there is currently a scarcity of reports distributed is because of ongoing problems with the FAMIS system. At this point,

it is not cost-effective to attempt to modify FAMIS to accept GE Capital data. Additionally, not all costs are captured in the GE Capital (or new vendor) system. There are separate contracts for collision work, tires, glass, transmissions and towing. We suspect that into the future, we may continue directly contracting certain repairs where we believe that we can obtain a significantly better price.

"The FAMIS replacement system, the Maintenance Control and Management System (MCMS) will be the repository of all vehicle maintenance information, and will be phased in Citywide over the next two years. This system will have a reporting module which will provide industry standard reports."

15) Reevaluate the cost-effectiveness of using a vendor for the City's automotive repair and maintenance program, taking into consideration all costs related to administering the contract, and the training and supervision of contract personnel.

DCAS Response: "As we reported on the body of the report, the cost savings from this initiative have dramatically exceeded our initial estimates. The administrative positions, which were cited as an omission in the audit are actually the same positions who operated BMV, therefore having no net effect on this analysis. Each of the indirect costs from federal OMB Circular A-76 appears to increase the benefit of contracting. Therefore, it is self-evident that no re-evaluation is necessary.

"A suggestion has been made that we should hire many additional monitoring personnel, potentially to the point where all savings would evaporate. Such an excessive level of monitoring would be poor public policy, and a bad business decision. As we stated earlier, monitors should save money, not cost money. We will continue to consider adding monitors, if they continue to drive our overall costs down."

16) Carefully review the audit's findings and incorporate, where applicable, all recommendations contained in the report in the new Request for Proposal (RFP) currently being prepared.

DCAS Response: "Because of the length of the report and its numerous inaccuracies, it is impossible to outline everything in the body of the report that we feel is in error or a potential problem. Furthermore, our first try at bidding a City contract, with very extensive control and reporting requirements for vehicle maintenance drew no responsible bidders.

"If we are to procure a City contract which addresses most of our concerns, we may have to limit our requirements to industry standards. For example, though we would prefer to have all bills report parts and labor separately, sometimes an oil change is simply reported as such. We must remember, that our goal is

acceptable service at the best price. Otherwise, we will have no choice but to utilize the State contract again."

Sincerely,

William P. Carnevale

attachments

c: Randy Mastro  
William Diamond  
Howard Safir  
Gordon Campbell  
Alfred Cerullo  
Richard Malchow  
Jason Turner  
Richard Roberts

