



STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

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February 20, 2007

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

Dear Mr. Sonntag:

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

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

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

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

Sincerely,

Linda Villegas Bremer, Director  
Department of General Administration

Victor A. Moore, Director  
Office of Financial Management

Enclosure

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



**Official Response to Motor Pool Audit from the Department of General Administration  
and the Office of Financial Management  
February 20, 2007**

This document was prepared in response to the final audit delivered to the Department of General Administration on January 12, 2007.

RECOMMENDATIONS 1 and 2: We recommend that the Motor Pool use its legal authority to require state agencies to return underused Motor Pool vehicles and reassign or sell them.

State employees who travel less than 10,000 miles per year should drive their own vehicles and submit for mileage reimbursement or use alternative transportation.

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

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

**Action steps:**

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

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

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

- The current state policy uses 12,000 miles driven per year as criteria for having an assigned vehicle. Although the report states that the audit research supports this standard, the audit used 10,000 miles as the criteria for evaluating under-use.
- Our research of other state motor pools indicates that most states assign vehicles based on the nature of the assigned activity and frequency of use, along with number of miles driven. For

example, an employee may not own a vehicle, may ride a bus or carpool to work, or may own a vehicle that is not suited to their job duties.

- Typically, state and local governments need to use a combination of public transportation and permanently assigned, day use, and privately owned vehicles to efficiently and safely deliver state services. Day use of a state owned vehicle is a good option, depending on the frequency of travel and the proximity to the motor pool rental fleet.

**Action steps:**

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

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

**RECOMMENDATION 3:** The Motor Pool should raise its rates to cover the costs of operations.

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

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

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

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

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

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

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

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

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

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

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

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

In addition to bringing the state into conformance with federal requirements, the temporary rate reduction helped reduce costs during the recession in the early 2000s. By reducing rates and using reserves to pay Motor Pool costs, agencies had more money available to deliver essential

services. This approach was approved by the Legislature when they passed the agencies' operating budgets.

**RECOMMENDATION 4:** The Motor Pool should revise its method of funding new vehicles to avoid paying interest on vehicle loans.

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

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

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

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

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

**Action steps:**

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

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

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

Additional benefits of the current model include:

- Compliance with federal requirements that charges match the period of time in which the vehicle is used.
- The ability to use the money not spent on a cash purchase on essential programs, including investments in programs services that may return more for the money in the long-term.
- The opportunity to take advantage of favorable interest rates by using the State Treasurer's Certificate of Participation (COP) program. As shown in the audit report, the state's interest rates are low (4.3 percent) compared to other interest rates for new vehicles (6.64 percent - 13.74 percent).

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

**Action steps:**

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

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

**ACTION PLAN FOR ADDRESSING AUDIT FINDINGS**

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