

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



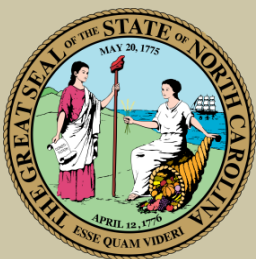
DEPARTMENT OF ADMINISTRATION

MOTOR FLEET MANAGEMENT

OVERSIGHT OF PERMANENTLY ASSIGNED STATE-OWNED VEHICLES

PERFORMANCE AUDIT

OCTOBER 2019



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The purpose of this audit was to determine whether the Department of Administration's Motor Fleet Management Division (MFM) provided oversight of the State's permanently assigned state-owned vehicles in accordance with state statute and best practices.

BACKGROUND

MFM was established in 1982 by *NC General Statute Chapter 143-341(8)i* with the goal of lowering fleet costs through the elimination of duplication and inefficiencies caused by the decentralized management of state-owned passenger vehicles.¹

Specifically, MFM is required to adopt and enforce rules and coordinate state policy regarding (i) the permanent assignment of state-owned passenger motor vehicles and (ii) the use of and reimbursement for those vehicles for commuting.

KEY FINDINGS

MFM did not provide adequate oversight of the State's permanently assigned state-owned vehicles in accordance with state statute and best practices. Specifically:

- MFM did not provide adequate oversight to ensure that each state agency's policies and practices complied with MFM's vehicle assignment and use policies.
- MFM did not provide adequate oversight to ensure that permanently assigned state-owned vehicles were driven the minimum amount of miles required for assignment.
- MFM did not provide adequate oversight to ensure that state agencies complied with commuter use requirements.

KEY RECOMMENDATIONS

- MFM should acknowledge responsibility to coordinate policy, administer rules, and provide oversight of the State's permanently assigned vehicle fleet.
- MFM should implement procedures to ensure that state agencies with delegated authority are effectively performing delegated duties.
- MFM should establish a commuter reimbursement rate to be used by all agencies with employees who have been approved to use permanently assigned state vehicles for commuting.

¹ According to NC General Statute, state-owned passenger motor vehicles include any automobile sedan, station wagon, pick-up truck, four-wheel-drive utility vehicle, or passenger-type minivan, whether or not owned, maintained or controlled by the Department of Administration, and regardless of the source of the funds used to purchase it.

EXECUTIVE SUMMARY (CONCLUDED)

- MFM should provide adequate guidance concerning commuter reimbursement policies to all state agencies.
- MFM should monitor commuter reimbursement to ensure consistent application of rate and compliance with commuter use policies.

MATTERS FOR FURTHER CONSIDERATION

The Motor Fleet Management Division should consider completing a break-even analysis to compare the current costs of owning and operating a state vehicle to the costs of reimbursing state employees for using their vehicles or using other transportation options.

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Machelle Sanders, Secretary, Department of Administration

Ladies and Gentlemen:

We are pleased to submit this performance audit report titled *Oversight of Permanently Assigned State-Owned Vehicles*. The audit objective was to determine whether the Department of Administration's Motor Fleet Management Division provided oversight of the State's permanently assigned state-owned vehicles in accordance with state statute and best practices.

The Department of Administration's Secretary, Machelle Sanders reviewed a draft copy of this report. Her written comments are included starting on page 14.

This audit was conducted in accordance with *Article 5A of Chapter 147 of the North Carolina General Statutes*.

We appreciate the courtesy and cooperation received from management and the employees of Department of Administration during our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

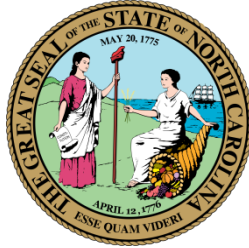
Beth A. Wood, CPA
State Auditor



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State Auditor

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BACKGROUND

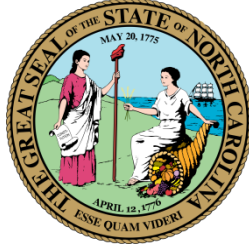
The Motor Fleet Management Division (MFM) was established in 1982 by *NC General Statute Chapter 143-341(8)i* with the goal of lowering fleet costs through the elimination of duplication and inefficiencies caused by the decentralized management of state-owned passenger vehicles.²

Specifically, MFM is required to:

- Establish and operate central facilities for the maintenance, repair, and storage of state-owned passenger motor vehicles for the use of state agencies.
- Acquire passenger motor vehicles by transfer from other state agencies and by purchase, which shall be part of the central motor fleet.
- Adopt and administer rules for the control of all state-owned passenger motor vehicles and to require state agencies to keep all records and make all reports regarding motor vehicle use as the Secretary deems necessary.
- Adopt and enforce rules and coordinate state policy regarding (i) the permanent assignment of state-owned passenger motor vehicles and (ii) the use of and reimbursement for those vehicles for commuting.
- Allocate and charge against each state agency to which transportation is furnished, on a basis of mileage or of rental, its proportionate part of the cost of maintenance and operation of the motor fleet.

As of September 24, 2018, MFM was responsible for managing approximately 7,700 state-owned permanently assigned passenger motor vehicles.

² According to NC General Statute, state-owned passenger motor vehicles include any automobile sedan, station wagon, pick-up truck, four-wheel-drive utility vehicle, or passenger-type minivan, whether or not owned, maintained or controlled by the Department of Administration, and regardless of the source of the funds used to purchase it.



OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine whether the Department of Administration's (Department) Motor Fleet Management Division (MFM) provided oversight of the State's permanently assigned state-owned vehicles in accordance with state statute and best practices.

The audit scope included MFM and state agency policies, procedures, and operations related to permanently assigned state-owned vehicles for the period July 1, 2017 through June 30, 2018. The scope also included an analysis of permanently assigned state-owned vehicles as of September 24, 2018.³

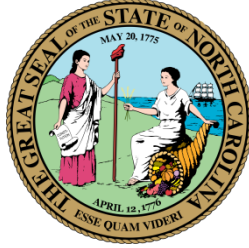
To accomplish the audit objective, auditors reviewed vehicle assignment forms, analyzed management information system data, interviewed personnel, observed operations, reviewed policies and best practices, reviewed state laws, and examined documentation supporting policies and procedures as necessary. Wherever sampling was used, auditors applied a non-statistical approach. Therefore, results could not be projected to the population. This approach was determined to adequately support the audit conclusions.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

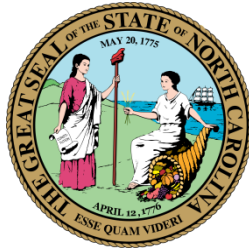
We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

³ The scope was adjusted for our review of permanently assigned state-owned vehicles due to the unavailability of historical vehicle data. Data of a vehicle is not available after the vehicle has been removed from MFM's information system.



RESULTS AND CONCLUSIONS

The Department of Administration's Motor Fleet Management Division (MFM) did not provide adequate oversight of the State's permanently assigned state-owned vehicles in accordance with state statute and best practices. Specifically, MFM did not provide adequate oversight to ensure that each state agency's policies and practices complied with MFM's vehicle assignment and use policies, permanently assigned state-owned vehicles were driven the minimum amount of miles required for assignment, or state agencies complied with commuter use requirements.



FINDINGS, RECOMMENDATIONS, AND RESPONSES

1. Lack of Adequate Oversight to Ensure Compliance with State Vehicle Assignment and Use Policies

The Department of Administration's (Department) Motor Fleet Management Division (MFM) did not provide adequate oversight to ensure that state agencies complied with MFM vehicle assignment and use policies. The State owns approximately \$63 million⁴ worth of permanently assigned vehicles. Inadequate oversight increased the risk that state vehicle misuse could occur and not be detected. MFM did not provide adequate oversight because it did not interpret state statute as requiring MFM to manage and monitor all permanently assigned state-owned vehicles. While state statute allows MFM to delegate the duty of enforcing rules to agencies, state statute does not remove MFM's responsibility to provide oversight for the enforcement of those delegated rules. Additionally, best practices require oversight of delegated responsibilities.

Inadequate Oversight of Vehicle Assignment and Use Policies

MFM did not provide adequate oversight to ensure that each state agency's policies and practices complied with MFM's vehicle assignment and use policies.

MFM policies require that permanently assigned state vehicles are only assigned to drivers with a valid North Carolina driver's license and only used for official state business.

MFM delegated authority to administer and enforce MFM policies to state agencies with permanently assigned state-owned vehicles.

However, MFM did not implement procedures to ensure that state agencies were effectively performing the delegated duties. For example, MFM did not:

- Review agency-specific vehicle assignment and use policies to ensure conformity with MFM policies
- Ensure that state agencies had procedures in place to enforce compliance
- Conduct periodic inspections of agency vehicle assignments and travel logs to identify noncompliance
- Track inspections conducted, violations found, and actions taken to ensure that violations were addressed appropriately

Resulted in Increased Risk of Misuse for \$63 million in State Assets

As a result, the State's 7,688 permanently assigned vehicles, valued at approximately \$63 million, were at increased risk for undetected misuse.⁵

For example, a review of policies and procedures at 44 state agencies found that 17 of 44 (38%) did not have policies and procedures that conformed to MFM vehicle assignment and use policies:

⁴ Based on auditor calculations as of January 2019. Auditors estimated the value of permanently assigned state-owned vehicles using Kelly Bluebook and specific vehicle information (year, make, model, mileage) obtained from MFM and state agencies.

⁵ Misuse could include vehicles permanently assigned to unauthorized individuals, vehicles not driven the minimum amount of mileage required, vehicles used for inappropriate commuting, etc.

- 12 of 44 (27%) state agencies did not have written policies and procedures for permanent vehicle assignment approval, driver license record review, or commuting.
- 5 of 44 (11%) state agencies had nonconforming policies and procedures that did not:
 - Require the supervisor or agency-head to approve the vehicle assignment application
 - Require the vehicle assignment application to contain driver license information
 - Include minimum mileage usage requirements

Additionally, some vehicle assignment records were inaccurate and vehicles were assigned to unlicensed drivers. A review of 793 vehicle assignments found:

- 61 (8%) vehicles were assigned to individuals no longer employed by the State of North Carolina. Some individuals had been separated from state employment for up to ten years.⁶
- 7 (1%) vehicles were assigned to individuals without a valid North Carolina driver license.⁷
- 4 (0.5%) vehicles were assigned to individuals no longer employed by the same state agency or institution listed in MFM records.⁸

And recent Office of the State Auditor investigations identified instances of state-owned vehicle misuse. For example:

- **Division of Motor Vehicles (DMV)** – An inspector's unauthorized commuting totaled nearly \$85,000 over three years. Another DMV employee derived a \$5,616 personal benefit from unauthorized commuting in a state vehicle.⁹
- **Department of Public Safety** - A State Highway Patrol Sergeant's unauthorized commuting in a state vehicle resulted in more than \$9,400 of inappropriate spending.¹⁰
- **Department of Public Safety** – A Private Protective Service's Director and Supervisor derived a combined \$7,306 personal benefit from unauthorized commuting in state vehicles.¹¹

MFM Interprets Statute as Not Requiring Its Oversight

According to MFM, it did not manage and monitor all permanently assigned state-owned vehicles because state statute allows MFM to delegate that responsibility to state agencies.

Instead, MFM says its responsibility for permanently assigned state-owned vehicles is solely to process the related paperwork for vehicle assignments and to transfer vehicles. MFM delegates authority to state agencies to create appropriate policies and procedures.

⁶ According to the Office of the State Controller's Human Resources/Payroll system.

⁷ According to North Carolina Division of Motor Vehicles driver's license data.

⁸ According to the Office of the State Controller's Human Resources/Payroll system.

⁹ <https://www.ncauditor.net/EPSSWeb/Reports/Investigative/INV-2017-0420.pdf>.

¹⁰ <https://www.ncauditor.net/EPSSWeb/Reports/Investigative/INV-2016-0411.pdf>.

¹¹ <https://www.ncauditor.net/EPSSWeb/Reports/Investigative/INV-2016-0413.pdf>.

State Statute Requires MFM to Provide Oversight

North Carolina General Statutes specifically state that it is MFM's responsibility to coordinate policy and administer rules regarding the permanent assignment of state-owned passenger motor vehicles. It is the duty and responsibility of MFM:

To adopt and **administer rules** for the control of **all** state-owned passenger motor vehicles and to require State agencies to keep all records and make all reports regarding motor vehicle use as the Secretary deems necessary.¹²

To **adopt** with the approval of the Governor and to enforce rules **and to coordinate State policy regarding (i) the permanent assignment of state-owned passenger motor vehicles and (ii) the use of and reimbursement for those vehicles for the limited commuting permitted by this subdivision.** For the purpose of this subdivision 7a., "state-owned passenger motor vehicle" includes any state-owned passenger motor vehicle, whether or not owned, maintained or controlled by the Department of Administration, and regardless of the source of the funds used to purchase it.¹³ *[Emphasis Added]*

NC General Statute Chapter 143-341(8)i.7 states that:

The Department of Administration, with the approval of the Governor, may delegate, or conditionally delegate, to the respective heads of agencies which own passenger motor vehicles or to which passenger motor vehicles are permanently assigned by the Department, the duty of enforcing all or part of the rules adopted by the Department of Administration...

However, nothing in statute specifically removes MFM's responsibility to provide guidance to and oversight of the state agencies that have received delegated authority.

Best Practices Require Oversight of Agencies with Delegated Authority

Internal control best practices require periodic monitoring and oversight of entities such as state agencies with delegated authority. For example, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) states:

Many organizations delegate their roles and responsibilities for day-to-day management...While these external parties execute activities for or on behalf of the organization, **management cannot abdicate its responsibility** to manage the associated risks. **It must implement a program to evaluate those activities performed by others** on their behalf to assess the effectiveness of the system of internal control over the activities performed by outsourced service providers. *[Emphasis Added]*

RECOMMENDATIONS

MFM should acknowledge responsibility to coordinate policy, administer rules, and provide oversight of the State's permanently assigned vehicle fleet.

¹² N.C.G.S. § 143-341(8)i.8.

¹³ N.C.G.S. § 143-341(8)i.7a.

MFM should implement procedures to ensure that state agencies with delegated authority are effectively performing delegated duties.

AGENCY RESPONSE

See page 14 for the agency's response to this finding.

2. Lack of Adequate Oversight to Prevent Underutilization of State Vehicles

The Department of Administration's (Department) Motor Fleet Management Division (MFM) did not provide adequate oversight to ensure that state agencies complied with the State's vehicle minimum mileage requirements. As a result, at least 286 permanently assigned vehicles, valued at \$2.1 million,¹⁴ were driven less than the required 12,600 miles per year. MFM did not provide adequate oversight because it did not interpret state statute as requiring MFM to manage and monitor all permanently assigned state-owned vehicles. While state statute allows MFM to delegate the duty of enforcing rules to agencies, state statute does not remove MFM's responsibility to provide oversight for the enforcement of those delegated rules. Additionally, best practices require oversight of delegated responsibilities.

Inadequate Oversight to Ensure Compliance with Minimum Mileage Requirements

MFM did not provide adequate oversight to ensure that permanently assigned state-owned vehicles were driven the minimum amount of miles required for assignment.

MFM policies state that permanently assigned state-owned vehicles are expected to be driven a minimum of 3,150 miles per quarter. If vehicles are not driven the 3,150 quarterly minimum mileage requirement, they should have documentation supporting or justifying the lower mileage amounts.¹⁵

MFM delegated authority to administer and enforce MFM policies to state agencies with permanently assigned state-owned vehicles.

However, MFM did not implement procedures to ensure that state agencies were effectively performing the delegated duties. For example, MFM did not:

- Review agency-specific minimum mileage policies to ensure conformity with MFM policy
- Periodically review agency vehicle travel logs to verify the accuracy of agency self-reported mileage
- Revoke vehicle assignments for vehicles driven less than 12,600 miles annually

¹⁴ Based on auditor calculations as of January 2019. Auditors estimated the value of permanently assigned state-owned vehicles using Kelly Bluebook and specific vehicle information (year, make, model, mileage) obtained from MFM and individual state agencies.

¹⁵ Motor Fleet Management Regulations Section III(E) states "Vehicles permanently assigned to individuals or agencies may be recalled if any of the following occur...6. If the vehicle is not being driven the 3,150 quarterly minimum mileage requirement and lower mileage cannot be justified."

Resulted in \$2.1 Million Worth of Underutilized Vehicles

As a result, at least 286 state vehicles valued, at \$2.1 million,¹⁶ were not driven the minimum required miles to qualify for permanent assignment.

The State owns 7,688 permanently assigned vehicles valued at approximately \$63 million.¹⁶

A review of 793 permanently assigned state vehicles (\$5.7 million) showed:

- 375 (47%) vehicles were not driven the required 3,150 miles per quarter¹⁷ in at least one quarter and did not have documentation justifying the low mileage.
- 286 (36%) were driven less than the required 12,600 miles for the year.

Table 1 below shows the value of state vehicles driven less than 12,600 miles per year.

Table 1

Miles Driven	Number of Vehicles	Percentage of Sample	Value of Vehicles
less than 3,150	37	5%	\$351,008
3,150 - 12,600	249	31%	\$1,773,424
Total:		286 vehicles	\$2,124,432

Source: Auditor calculations

MFM Interprets Statute as Not Requiring Its Oversight

According to MFM, it did not manage and monitor all permanently assigned state-owned vehicles because state statute allows MFM to delegate that responsibility to state agencies.

Instead, MFM says its responsibility for permanently assigned state-owned vehicles is solely to process the related paperwork for vehicle assignments and to transfer vehicles. MFM delegates authority to state agencies to create appropriate policies and procedures.

State Statute Requires MFM to Provide Oversight

North Carolina General Statutes specifically state that it is MFM's responsibility to coordinate policy and administer rules regarding the permanent assignment of state-owned passenger motor vehicles. It is the duty and responsibility of MFM:

To adopt and **administer rules** for the control of **all** state-owned passenger motor vehicles and to require State agencies to keep all records and make all reports regarding motor vehicle use as the Secretary deems necessary.¹⁸

¹⁶ Based on auditor calculations as of January 2019. Auditors estimated the value of permanently assigned state-owned vehicles using Kelly Bluebook and specific vehicle information (year, make, model, mileage) obtained from MFM and individual state agencies.

¹⁷ See Matters for Further Consideration on page 13 for further discussion.

¹⁸ N.C.G.S. § 143-341(8)i.8.

To **adopt** with the approval of the Governor and to enforce rules **and to coordinate State policy regarding (i) the permanent assignment of state-owned passenger motor vehicles and (ii) the use of and reimbursement for those vehicles for the limited commuting permitted by this subdivision.** For the purpose of this subdivision 7a., "state-owned passenger motor vehicle" includes any state-owned passenger motor vehicle, whether or not owned, maintained or controlled by the Department of Administration, and regardless of the source of the funds used to purchase it.¹⁹ *[Emphasis Added]*

NC General Statute Chapter 143-341(8)i.7 states that:

The Department of Administration, with the approval of the Governor, may delegate, or conditionally delegate, to the respective heads of agencies which own passenger motor vehicles or to which passenger motor vehicles are permanently assigned by the Department, the duty of enforcing all or part of the rules adopted by the Department of Administration...

However, nothing in statute specifically removes MFM's responsibility to provide guidance to and oversight of the state agencies that have received delegated authority.

Best Practices Require Oversight of Agencies with Delegated Authority

Internal control best practices require periodic monitoring and oversight of entities such as state agencies with delegated authority. For example, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) states:

Many organizations delegate their roles and responsibilities for day-to-day management...While these external parties execute activities for or on behalf of the organization, **management cannot abdicate its responsibility** to manage the associated risks. **It must implement a program to evaluate those activities performed by others** on their behalf to assess the effectiveness of the system of internal control over the activities performed by outsourced service providers. *[Emphasis Added]*

RECOMMENDATIONS

MFM should acknowledge responsibility to coordinate policy, administer rules, and provide oversight of the State's permanently assigned vehicle fleet.

MFM should implement procedures to ensure that state agencies with delegated authority are effectively performing delegated duties.

AGENCY RESPONSE

See page 15 for the agency's response to this finding.

¹⁹ N.C.G.S. § 143-341(8)i.7a.

3. Lack of Adequate Oversight to Ensure Use of Consistent Commuting Reimbursement Rate

The Department of Administration's (Department) Motor Fleet Management Division (MFM) did not provide adequate oversight to ensure state agencies used a consistent commuting reimbursement rate. As a result, some commuters paid more than others for the same benefit. MFM did not provide adequate oversight because it did not interpret state statute as requiring MFM to manage and monitor all permanently assigned state-owned vehicles. While state statute allows MFM to delegate the duty of enforcing rules to agencies, state statute does not remove MFM's responsibility to provide oversight for the enforcement of those delegated rules. Additionally, best practices require oversight of delegated responsibilities.

Inadequate Oversight of Commuting Reimbursement Rate

MFM did not provide adequate oversight to ensure state agencies used a consistent commuting reimbursement rate for employees approved to commute in state vehicles.

MFM policies state the amount of reimbursement shall approximate the benefit derived from the use of the vehicle as prescribed by federal law at a **rate established by Motor Fleet Management** and shall be for 20 days per month.²⁰

MFM delegated authority to administer and enforce MFM policies to state agencies with permanently assigned state-owned vehicles.

However, MFM did not implement procedures to ensure that state agencies were effectively performing the delegated duties. For example, MFM did not:

- Establish a statewide commuting reimbursement rate for permanently assigned vehicles²¹
- Provide guidance and communicate the reimbursement rate to state agencies
- Ensure that state agencies had procedures in place to enforce compliance
- Conduct periodic inspections of commuter reimbursement payments to identify inconsistency or noncompliance

Resulted in Inequitable Treatment

As a result, some state employees paid substantially more than others to commute in a state vehicle.

During SFY2018, there were 16 employees from three agencies who reimbursed the State for the use of a permanently assigned state-owned vehicle for commuting.²² Reimbursement rates varied by agency:

²⁰ Motor Fleet Management Regulations, Section VII (B) Commuting Policy.

²¹ Motor Fleet Management regulations instruct agencies to calculate commuting reimbursement using federal IRS regulations. However, there are several methods prescribed by the Internal Revenue Service (IRS) to determine the value of a vehicle provided to an employee for commuting use. This left state agencies to choose different methods. MFM needs to establish a consistent rate to be used by all state agencies.

²² According to State payroll records obtained from the Office of the State Controller.

- Two agencies used the “Cents-Per-Mile” rule²³

Agency	# of Employees	Monthly Payment	Annual Payment
1	1	\$ 106.60	\$ 1,279
2	1	\$ 201.60	\$ 2,419

Source: North Carolina Office of the Controller

- One agency used the “Commuting” rule²⁴

Agency	# of Employees	Monthly Payment (per Employee)	Annual Payment (per Employee)
3	14	\$ 30.00 ²⁵	\$ 360

Source: North Carolina Office of the Controller

Both the “Cents-Per-Mile” and “Commuting” rules are methods prescribed by the Internal Revenue Service (IRS) to determine the value of a vehicle provided to an employee for commuting use.

However, as shown in the tables above, commuters who used the “Cents-Per-Mile” rule paid substantially more than those who used the “Commuting” rule.

MFM Interprets Statute as Not Requiring Its Oversight

According to MFM, it did not manage and monitor commuter reimbursement rates for permanently assigned state-owned vehicles because state statute allows MFM to delegate that responsibility to state agencies.

Instead, MFM says its responsibility for permanently assigned state-owned vehicles is solely to process the related paperwork for vehicle assignments and to transfer vehicles. MFM delegates authority to state agencies to create appropriate policies and procedures.

State Statute Requires MFM to Provide Oversight

North Carolina General Statutes specifically state that it is MFM’s responsibility to coordinate policy and administer rules regarding the permanent assignment of state-owned passenger motor vehicles. It is the duty and responsibility of MFM:

To adopt and **administer rules** for the control of **all** state-owned passenger motor vehicles and to require State agencies to keep all records and make all reports regarding motor vehicle use as the Secretary deems necessary.²⁶

²³ Under this rule, the value of a vehicle provided to an employee for personal use is determined by multiplying the standard IRS mileage rate by the total miles the employee drives the vehicle for personal purposes.

²⁴ Under this rule, the value of a vehicle provided to an employee for personal use is determined by multiplying each one-way commute (home to work or work to home) by \$1.50.

²⁵ We question whether Agency 3 is calculating reimbursement using this method correctly. According to this method, each one-way commute should be multiplied by \$1.50 (home to work or work to home). Therefore, it is \$3 for each day the vehicle is used for commuting. According to MFM regulations, each rate shall be calculated based on 20 days per month. Therefore, the monthly payment per employee should be \$60 using this method (\$3 x 20 days).

²⁶ N.C.G.S. § 143-341(8)i.8.

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Best Practices Require Oversight of Agencies with Delegated Authority

Internal control best practices require periodic monitoring and oversight of entities such as state agencies with delegated authority. For example, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) states:

Many organizations delegate their roles and responsibilities for day-to-day management...While these external parties execute activities for or on behalf of the organization, **management cannot abdicate its responsibility** to manage the associated risks. **It must implement a program to evaluate those activities performed by others** on their behalf to assess the effectiveness of the system of internal control over the activities performed by outsourced service providers. *[Emphasis Added]*

RECOMMENDATIONS

MFM should acknowledge responsibility to coordinate policy, administer rules, and provide oversight of the State's permanently assigned vehicle fleet.

MFM should establish a commuter reimbursement rate to be used by all agencies with employees who have been approved to use permanently assigned state vehicles for commuting.

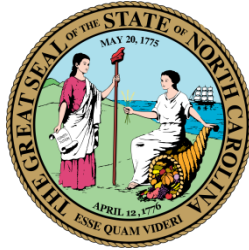
MFM should provide adequate guidance concerning commuter reimbursement policies to all state agencies.

MFM should monitor commuter reimbursement to ensure consistent application of rate and compliance with commuter use policies.

AGENCY RESPONSE

See page 16 for the agency's response to this finding.

²⁷ N.C.G.S. § 143-341(8)i.7a.



MATTERS FOR FURTHER CONSIDERATION

MFM Should Consider Completing a Break-Even Analysis to Determine Point at Which Operating State Vehicle is More Cost-Effective

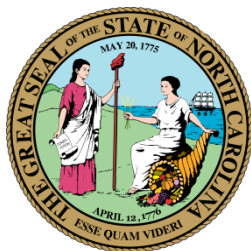
The Department of Administration's Motor Fleet Management Division (MFM) should consider completing a break-even analysis to compare the current costs of owning and operating a state vehicle to the costs of reimbursing state employees for using their vehicles or using other transportation options.

MFM policies state that permanently assigned state-owned vehicles are expected to be driven a minimum of 3,150 miles per quarter. The 3,150 miles per quarter minimum allowable rate has been in place for at least ten years, and is still the current law²⁸ used for identifying potentially unnecessary motor fleet inventory and finding opportunities to implement more cost-effective transportation options.

However, MFM has not performed a break-even analysis to ensure the 3,150 mileage point is a good measure of cost-effectiveness. Without completing a break-even analysis, MFM has no way to know the mileage point where it is more economical to reimburse an employee than to permanently assign a state vehicle.

Despite the lack of a break-even analysis to definitively identify cost-saving opportunities, the amount of underutilized vehicles identified in Finding 2 of this report indicates a need for MFM oversight of permanent state vehicle assignments. Auditors found that 375 of 793 (47%) vehicles reviewed were not driven the required 3,150 miles per quarter.

²⁸ N.C.G.S. § 143-341(8)i.7a.



RESPONSE FROM DEPARTMENT OF ADMINISTRATION



STATE OF NORTH CAROLINA
DEPARTMENT OF ADMINISTRATION

ROY COOPER
GOVERNOR

MACHELLE SANDERS
SECRETARY

October 17, 2019

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
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Dear Auditor Wood:

Thank you for the October 2019 review and recommendations concerning Oversight of Permanently Assigned State-Owned Vehicles by the Department of Administration (DOA), Division of Motor Fleet Management (MFM). DOA takes the responsibility of operating and overseeing the State's central motor fleet for state-owned passenger motor vehicles seriously. We appreciated the opportunity to work with your audit team to help identify deficiencies in MFM oversight during the audit scope period. Prior to the commencement of the audit, MFM had self-identified and begun working towards rectifying many of the issues OSA identified as findings. While MFM has more work to do in addressing these issues, we are pleased that MFM has incorporated best practices in its oversight and already made progress consistent with OSA recommendations. The following represents our response:

AUDIT FINDING, RECOMMENDATIONS, AND DOA RESPONSE

Finding 1: Lack of Adequate Oversight to Ensure Compliance with State Vehicle Assignment and Use Policies

Recommendations:

- MFM should acknowledge responsibility to coordinate policy, administer rules, and provide oversight of the State's permanently assigned vehicle fleet.
- MFM should implement procedures to ensure that state agencies with delegated authority are effectively performing delegated duties.

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Agency Response:

The Department agrees with the State Auditor's finding and recommendations.

In its oversight capacity as the sole agency authorized by statute to establish and operate a central motor fleet and to adopt and enforce rules for the assignment and use of state-owned passenger motor vehicles, DOA continues to promulgate and regularly update policies that govern vehicle assignment and use. MFM will implement the practice of periodically reminding agencies that policies are readily accessible on the MFM website to all agencies and users for reference. While an agency may establish policies more stringent than MFM policies, MFM rules and regulations supersede any contravening agency policies. Agencies will be required to document their policies or acknowledge that they will follow the policies established by MFM.

The audit states that MFM says its responsibility for permanently assigned state-owned vehicles is solely to process the related paperwork for vehicle assignments and to transfer vehicles. To provide context, MFM historically understood its responsibility for enforcing vehicle use rules to be limited to vehicles in the central motor fleet under MFM control, and that agencies owning vehicles not in the central motor fleet were responsible for managing assignment and use of those vehicles. This understanding was derived from several factors: (1) historically, MFM has only managed state-owned passenger motor vehicles included in its central motor fleet; (2) Per G.S 143-341(8)i.3., vehicles assigned to State Highway Patrol, State Bureau of Investigation, Samarcand Training Academy and constituent institutions of the University of North Carolina which are used primarily for law enforcement purposes are exempted from the statute requiring transferring ownership, custody or control of their passenger motor vehicles to the Department; and (3) reports submitted by the Program Evaluation Division to the Joint Legislative Program Evaluation Oversight Committee between 2011 and 2017 infer that no one agency is responsible for all state-owned vehicles. MFM is now working to develop methods for effective oversight of all state-owned passenger motor vehicles consistent with audit recommendations.

MFM currently meets bi-annually with agency vehicle coordinators to discuss pertinent matters concerning vehicle assignment and use and to reconcile issues concerning vehicle oversight. In September 2019, MFM met with agency vehicle coordinators and began implementing best practices in monitoring agency compliance with rules and delegated duties. Additionally, MFM leadership has developed a form for each agency's acknowledgement of MFM policies, rules, use and assignment of state-owned vehicles, including acceptance of delegated authority. DOA-IT has already begun the process of making the forms available electronically for users to complete and submit online.

Finding 2: Lack of Adequate Oversight to Prevent Underutilization of State Vehicles

Recommendations:

- MFM should acknowledge responsibility to coordinate policy, administer rules, and provide oversight of the State's permanently assigned vehicle fleet.
- MFM should implement procedures to ensure that state agencies with delegated authority are effectively performing delegated duties.

Agency Response:

The Department agrees with the State Auditor's finding and recommendations.

While state law sets a general standard that each state vehicle should be driven a minimum of 12,600 miles annually, the law recognizes that there are legitimate reasons that some state vehicles will not be able to achieve this minimum mileage. G.S. 143-341(8)i.7a. authorizes MFM to assign a state-owned passenger motor vehicle likely to be driven less than 3,150 miles per quarter or 12,600 miles annually if: (1) the individual's duties are routinely related to public safety, (2) the individual's duties are likely to expose the individual routinely to life-threatening situations, or (3) the agency can justify to MFM the need for permanent assignment because of the unique use of the vehicle to support the agency business needs. MFM has authorized such assignments in some instances. Examples of exemptions to the rule include campus-based vehicles, vehicles assigned to serve a specific local territory, vehicles used by probation and parole officers in performing post release supervision. Agencies providing these services each have a unique need that justifies these vehicle assignments.

MFM's leadership has begun implementing new policies for monitoring vehicle mileage. Each agency will be required to provide and retain documentation to justify requests for exemption from the vehicle mileage requirement. MFM will also retain full documentation supporting vehicles approved for exemption. MFM leadership is presently working with DOA-HR to create a compliance officer position dedicated to monitoring state agencies with delegated authority to ensure they are effectively performing duties delegated.

Finding 3: Lack of Adequate Oversight to Ensure Use of Consistent Commuting Reimbursement Rate

Recommendations:

- MFM should acknowledge responsibility to coordinate policy, administer rules, and provide oversight of the State's permanently assigned vehicle fleet.
- MFM should establish a commuter reimbursement rate to be used by all agencies with employees who have been approved to use permanently assigned state vehicles for commuting.
- MFM should provide adequate guidance concerning commuter reimbursement policies to all state agencies.
- MFM should monitor commuter reimbursement to ensure consistent application of rate and compliance with commuter use policies.

Agency Response:

The Department agrees with the State Auditor's findings and recommendations.

For consistency with IRS guidelines, MFM set the commuter reimbursement rate to follow IRS Publication 15-B rules for commuter benefits. Based on the adopted rules, commuters will apply one of two reimbursement rates determined by how the employee is classified under IRS standards.

MFM adopted the IRS "Commuting Rule" and "Cents-Per-Mile Rule". The Commuting Rule applies to every individual (except a control employee) who uses a State-owned passenger motor vehicle for commuting. Per IRS guidelines, the Commuting Rule may not be used by a control employee. A control employee is defined as a government employee whose compensation is equal to or exceeds Federal

Government Executive Level V (currently \$156,000) or an elected official. The Cents-Per-Mile Rule applies to control employees.

As part of the MFM Regulations review and update process currently underway by MFM leadership, the "Commuting Policy" section in MFM Regulations is being revised to reference IRS Publication 15-B and to clearly state the reimbursement rules. The actual commuter reimbursement rate has already been posted on the MFM website and will be electronically communicated to all agency heads, vehicle coordinators and authorized known commuters by October 31, 2019. These changes will provide every agency and commuter easy access to the current policy, rules and rates.

MFM explained the commuting policy and IRS Publication 15-B to agency fiscal officers during the July 2018 and September 2019 Chief Fiscal Officers (CFO) monthly meetings and will continue to reinforce commuting policy compliance with agency CFOs at future meetings.

MFM leadership met with the Office of State Controller (OSC) and DOA Fiscal on October 14, 2019 to refine procedures for proper accounting of commuter reimbursements. DOA and OSC are working jointly to ensure compliance with commuter reimbursement requirements.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mark B. Edwards, Jr.", is written over the typed name.

Mark B. Edwards, Jr.
Deputy Secretary

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