PERFORMANCE AUDIT

DEPARTMENT OF ADMINISTRATION

GENERAL SERVICES DIVISION

Report to the Arizona Legislature
By the Auditor General
September 1994
Report 94-5

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OFFICE OF THE
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September 27, 1994

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

Mr. J. Elliott Hibbs, Director
Department of Administration

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Administration, General Services Division. This report is in response to a May 5, 1993, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2951 through 41-2957.

Although State government is a major business, it often functions in ways that would be unacceptable in a major private enterprise. In this report we looked at two important functional areas — property management and fleet management. We found that although the Department of Administration (DOA) serves directly as the property manager for $177 million worth of property, it has almost no preventative maintenance programs, pays too much and receives too little for custodial services, and does not link its rental rates to the cost of operating its buildings. We found that the management of the State's vehicle fleet is fragmented among ten separate agencies and that only 1,500 of the State's 8,000 vehicles are under the control of the DOA. Further, DOA's taxi fleet is often not used cost-effectively. We recommend a number of legislative and administrative actions to allow DOA to operate in a more businesslike manner including funding a pilot program for preventative maintenance, contracting for custodial services, and coordinating fleet management on a statewide basis to reduce costs.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 28, 1994.

Sincerely,

Douglas R. Norton

Douglas R. Norton
Auditor General

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SUMMARY

The Office of the Auditor General has conducted two performance audits of the Department of Administration (DOA), General Services Division, pursuant to a May 5, 1993, resolution of the Joint Legislative Audit Committee. The resolution called for an audit of the Division and also specifically authorized a separate audit of the Fleet Management Office (Motor Pool) located within the Division. For reporting purposes, the two audits have been combined into a single report and represent the third and fourth of six audits scheduled of the Department. These audits were conducted as part of the Sunset review set forth in Arizona Revised Statutes §§41-2951 through 41-2957.

Preventative Maintenance Program Needed To Protect State's Investment In Its Buildings (see pages 7 through 12)

Implementation of a preventative maintenance program is essential to forestalling building deterioration. However, the DOA lacks sufficient management information to operate an effective program. As a result, the DOA's Tenant Services staff spend most of their time on costly repairs rather than preventing the need for such repairs. In fact, the DOA's General Manager estimates that Tenant Services' staff spend 80 percent of their time "fixing what breaks," leaving them unavailable for routine maintenance. To stop this cycle, the state should invest in a pilot program on two to three state buildings, thereby allowing it to begin the process needed to save money in repairs and maintain its investment in buildings.

The DOA Provides Mediocre Custodial Services At A High Cost (see pages 13 through 16)

Although the DOA's rates for custodial services are significantly higher than the private sectors', state buildings serviced by DOA custodians receive only superficial cleaning. While proper cleaning requires frequent performance of some tasks (such as emptying wastepaper baskets, cleaning rest rooms, and vacuuming carpets), and periodic performance of other tasks (such as dusting furniture, shampooing carpets, and washing walls), many tasks are either not performed on schedule or are never performed. As a result, tenants who rely on the DOA are dissatisfied with the mediocre service they receive. By contracting for custodial services, the state could save nearly $700,000 annually. However, if the DOA retains in-house services, significant improvements are needed.

The DOA Needs To Calculate Its Cost Of Operating State Buildings And Link These Costs To Rental Rates (see pages 19 through 22)

While the DOA is a major lessor and manager of building space, it is unaware what it costs to operate and provide services to the buildings it manages. Without this crucial information, the DOA has been unable to determine the cost effectiveness of some of its services. For example, after calculating the DOA's unit costs for providing custodial services, we found it was paying significantly more than necessary. Further, the DOA's failure to determine service costs impacts its ability to determine areas that are not adequately funded, such as preventative maintenance. Once the DOA has determined reasonable costs for providing its services, the Legislature should consider revising the process used to set state agency rental rates so that the DOA is funded on a cost-recovery basis.

Arizona Needs A Coordinated Approach To Addressing Statewide Fleet Issues (see pages 23 through 28)

Although Arizona owns and operates a large fleet of vehicles, management of the fleet is fragmented among more than ten separate entities, resulting in lost opportunities to reduce costs on a statewide basis. Currently, there is little sharing of maintenance and repair facilities. Further, use of state fuel pumps is not maximized, and there is no statewide coordination for fuel tank replacement. In addition, other fleet management areas are not consistently addressed. To provide a statewide perspective on fleet issues, the state should centralize responsibility and accountability within one agency. While the DOA would organizationally be the logical agency to provide statewide coordination, such an endeavor would require significant upgrades of the DOA's personnel and information system. If the DOA is unable to make needed changes, the state may want to consider other alternatives, such as the Department of Transportation, for this purpose. Regardless of who is selected for the lead role, an advisory committee of state fleet professionals should be utilized to assist in addressing statewide fleet issues.

The DOA Needs To Improve Management Of Its Taxi Fleet (see pages 29 through 34)

The DOA's Fleet Management Office is not effectively managing its taxi fleet. While many requests for out-of-town trips are denied, the Fleet Management Office is dedicating more than half of its taxi fleet to state employees for low-mileage in-town travel. In fact, nearly 25 percent of taxi rentals were for trips of 10 miles a day or less. In addition, the DOA has allowed some agencies and employees to monopolize the taxi fleet, thus impacting availability for others. The DOA needs to develop policies governing usage of taxi vehicles, and use them to actively manage the taxi fleet. Further, once new rules are in place and inappropriate use of the taxi fleet is halted, it needs to determine whether its fleet could be downsized.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted two performance audits and Sunset reviews of the Department of Administration (DOA), General Services Division, pursuant to a May 5, 1993, resolution of the Joint Legislative Audit Committee. The resolution called for an audit of the Division and also specifically authorized a separate audit of the Fleet Management Office (Motor Pool) located within the Division. For reporting purposes, the two audits have been combined into a single report and represent the third and fourth of six audits scheduled of the Department. These audits were conducted as part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

Mission and Responsibilities

The mission of the Department of Administration's General Services Division is to provide high-quality services and products in a professional, courteous, and timely manner to state employees, government agencies, and the public. The Division is organized into four sections: Tenant Services, Special Services, Building and Planning Services, and Construction Services. Recent audits have already addressed issues in Building and Planning Services (Performance Audit Report No. 93-9), and Construction Services (No. 91-12). This report focuses on Tenant Services and the Fleet Management Office housed within Special Services.

- **Tenant Services (197 FTEs)** — Tenant Services' mission is to provide for the repair, maintenance, cleanliness, and environmental control of all DOA-managed buildings. To fulfill its mission, Tenant Services staff perform custodial services, groundskeeping, maintenance of building systems such as heating and air conditioning equipment, control of inside temperatures, painting, and remodeling or minor renovations.

  Tenant Services currently performs these functions for more than 40 buildings. These buildings consist of the majority of buildings located in the Capitol Mall Complex, and the Tucson state office building complex. These buildings constitute more than 2.5 million square feet of space with a total replacement value of $177 million. In addition, Tenant Services provides groundskeeping service for 121 acres in the Capitol complex alone.

- **Fleet Management Office (34 FTEs)** — The Fleet Management Office, located within Special Services, is responsible for acquiring, maintaining, and coordinating the state motor pool vehicles for use by state agencies. It manages over 1,500 vehicles, of which 400 are loaned to agencies on a short-term basis (two weeks or less). The remainder are extended to individual agencies on a permanent basis, but oversight remains with the Fleet Management Office for maintenance and replacement.

In addition to the Motor Pool, Special Services houses three other offices that provide diverse services to state agencies. Our audit included a limited review of these offices, which include:

- **Business Services Office (36 FTEs)** — The Business Services Office provides services such as printing, office supplies, mail handling, and office machine repair.

- **Surplus Property Management Office (19 FTEs)** — The Surplus Property Management Office distributes used state and federal property to state agencies or eligible government and nonprofit organizations for reuse. Remaining property may be sold to the general public through periodic auctions.

- **The State Boards Office (2 FTEs)** — The State Boards Office provides general office and accounting support to ten licensing boards. A portion of the boards' licensing fees pay for these services.

Budget and Personnel

The General Services Division receives both appropriated and nonappropriated funding. For fiscal year 1993-94, General Services was appropriated $6.9 million from the General Fund and approximately $6.0 million from the Capital Outlay Stabilization Fund. The majority of the appropriated funds are used by Tenant Services. For fiscal year 1993-94, Tenant Services was budgeted approximately $11.9 million, with more than half of that amount being allocated for state-owned buildings' utility charges.

In addition to the appropriated funds, the General Services Division has several revolving funds available. The offices within the Special Services Section of the Division are primarily funded through fees collected from agencies using its various centralized services. As shown in Table 1 (page 3), Special Services had an estimated $11.9 million available from various revolving funds for fiscal year 1993-94.

Table 1

Department of Administration
General Services Division
Fiscal Year 1993-94 Estimated Nonappropriated Funds
Special Services Revolving Funds

Fund	Funds Available (estimated)	Funds Expended (estimated)
Motor Pool	$ 7,364,100	$5,292,500
Surplus Property — Federal	410,400	387,100
Surplus Property — State	1,424,200	1,357,300
Special Services(a)	2,745,300	2,726,400
Total	$11,944,000	$9,763,300

(a) This revolving fund receives payment from agencies using services from the DOA's print shop, repair shop, mail room, office supply room, and the State Board's Office.

Source: State of Arizona, Budget for Fiscal Year 1994, Nonappropriated Funds, prepared by the Joint Legislative Budget Committee.

Although the General Services Division is appropriated only 201 FTEs from General Fund and Capitol Outlay Stabilization Fund monies, it actually employs approximately 300 FTEs. These additional employees are funded through the revolving funds.

Audit Scope

Our report presents findings and recommendations in three areas addressed by our audit of the General Services Division:

- The need to implement a preventative maintenance program for DOA-managed buildings
- The need for the DOA to improve its custodial services or pursue contracting for those services
- The need to make the DOA's Tenant Services more accountable through changes in its method of funding

Our report presents two findings and recommendations specifically addressing the Motor Pool:

- The need for a statewide approach to management and coordination of the state's motor vehicle fleet

- The need to improve management of the DOA's taxi fleet

Our ability to analyze state fleet issues was severely impaired due to the lack of reliable statewide vehicle information. To obtain vehicle information for analysis, information must be gathered from multiple sources. While some agencies have well developed information systems and can readily provide detailed fleet information, others are unable to provide the information needed to reach reliable conclusions. Further, each agency has its own system for capturing information, thus there is no consistency in the types of information captured.

Even the most basic information is not readily available. During our audit, we attempted to determine the size and cost to operate the state's fleet. To obtain the number of vehicles owned by each agency, we contacted individual agencies both outside of DOA's control, as well as those participating in DOA's Fleet Management Program. Even then, it was difficult to find a single source within some agencies who had knowledge of all vehicles assigned to that particular agency. Further, for those agencies participating in DOA's Fleet Management Program, the number of vehicles reported by the agency often conflicted with DOA's records. After much effort, we still did not have a reliable statewide vehicle count.

Our efforts to obtain statewide cost information were also fruitless — no reliable single source of vehicle cost information exists.

We have also included an Other Pertinent Information section which discusses recent reports and their recommendations regarding the consolidation of print shop operations within state government. In addition, the Area for Further Audit Work section of this report discusses the need to evaluate the effectiveness of the DOA's Surplus Property Management Office.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director of the Department of Administration and the staff of the Tenant Services Section and the Fleet Management Office for their cooperation and assistance during the audit.

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FINDING I

PREVENTATIVE MAINTENANCE PROGRAM NEEDED TO PROTECT STATE'S INVESTMENT IN ITS BUILDINGS

Implementation of a preventative maintenance program is essential to forestalling building deterioration. However, the DOA lacks sufficient management information to operate an effective program. As a result, Tenant Services staff spend most of their time on costly repairs, rather than preventing the need for such repairs. To end this cycle, the state should invest in a pilot program on two to three buildings thereby allowing it to begin the process needed to save money in repairs and maintain its investment in buildings.

Preventative maintenance is the periodic inspection and minor repair of buildings and equipment to prevent future breakdowns and deterioration. The majority of preventative maintenance tasks are routine and regularly scheduled. For example, a roof should be swept and inspected monthly for cracks and blisters, and an air conditioning system should be inspected quarterly to ensure vibrations from daily operation have not loosened screws. Typically, equipment manuals recommend specific tasks and their corresponding frequency. These periodic inspections identify and remedy problems before emergencies and costly repairs develop. As a result, regular preventative maintenance permits equipment to function efficiently for its expected useful life.

Tenant Services employs approximately 45 staff to provide building maintenance services. These staff include refrigeration mechanics, electricians, and building maintenance technicians.

Preventative Maintenance Program Limited

The DOA provides an inadequate preventative maintenance program. Without a comprehensive preventative maintenance program, component and equipment failures dictate the DOA's work schedule. In addition, repairs occur more often and become more time consuming and costly.

Limited preventative maintenance — The DOA provides extremely limited preventative maintenance on the buildings it manages. The current in-house program includes only inspecting and changing air filters and belts, inspecting fire alarms, boilers, and roofs, and testing emergency generators.(1) However, the DOA cannot document that it regularly performs even these basic tasks. Further, other important preventative maintenance work, such as inspecting electrical systems, inspecting light fixtures, and providing comprehensive servicing of HVAC systems, is not even being scheduled.

We requested preventative maintenance information for five buildings in the Capitol Mall Complex and found many in-house tasks were either not performed or were not documented. In fact, if information provided by the DOA is accurate, it provided only five hours of preventative maintenance work for these five buildings over a year's time, while our research shows that more than 3,500 hours would be needed per year for just two of the five buildings.

Crisis-imposed work flow — Without preventative maintenance, component and equipment failures become scheduling priorities and work flow becomes unmanageable. One Tenant Services manager estimated that poor preventative maintenance creates 90 percent of the emergencies to which his section responds. Consequently, emergencies necessitate that staff and other resources be directed to the current crisis. The General Manager estimated Tenant Services' staff spend 80 percent of their time "fixing what breaks." Because staff spend so much time dealing with emergencies, they perform very little routine maintenance; likewise, equipment downtime for maintenance cannot be planned and scheduled appropriately.

An efficient preventative maintenance program should allow management to schedule its workload. According to industry literature, a well-run facility management operation can ensure 90 to 97 percent of its work is routinely scheduled and performed. When work is scheduled, staff and other resources are better managed and downtime of both equipment and staff is reduced.

Costly Repairs — An effective preventative maintenance program reduces long-term costs. According to a Wisconsin report, "One estimate widely accepted among facility management professionals is that every dollar spent on preventative maintenance programs results in reducing future repair and replacement costs by five dollars."(2) Because the DOA has not documented and maintained preventative maintenance and repair information, we could not determine the extent of repairs and their costs. However, Tenant Services' staff provided several instances where they believe repairs

(1) The DOA also contracts the following services: chiller maintenance and repair, coil cleaning, generator load bank tests, fire extinguisher inspection and tests, and elevator repair and maintenance. These services are contracted because they require special equipment or certified technicians.

(2) Department of Administration and University of Wisconsin, "An Evaluation of Building Maintenance and Construction Supervision," January 1991.

were necessitated due to failure to perform routine maintenance. The following examples are just a few:

- A blockage of a sump pump drain at the Department of Revenue caused increased pressure which eventually broke the pipe and flooded the basement, resulting in $5,000 in water damage. Tenant Services staff indicated that this could have been avoided by regular clearing of the sump pump drain and/or inspecting and replacing the $34 piece of pipe.

- Water inside a 12-year-old boiler went untreated and the boiler rusted. The boiler had to be replaced at a cost of $100,000. According to Tenant Services staff, with regular chemical treatment, maintenance, and inspection, a boiler should last 20 years.

- A blower shield in a seven-year-old cooling tower was allowed to deteriorate causing ensuing damage and the failure of the blower. The extent of the damage required complete replacement of the tower at a cost of $10,000. With proper maintenance, cooling towers should last 15 years.

Lack of Critical Management Information and Sufficient Funding Impact Ability to Provide Program

While a comprehensive preventative maintenance program is essential in curbing building deterioration, the DOA is currently unable to provide an effective program. The DOA lacks the information necessary to determine its workload and resource needs. Further, DOA officials contend that the DOA's preventative maintenance program is underfunded.

Management information lacking — Tenant Services lacks adequate information to determine its workload and resource needs. Although some Tenant Services building systems are inventoried, many are not. Knowing what needs to be maintained is a critical first step in developing a comprehensive program. Further, once systems are identified, Tenant Services needs to determine what types of maintenance are required for the systems, and at what intervals. For example, an air compressor may require oil to be added at 6 months, and new belts and air filters at 12 months. This information should then be used for generating work orders and determining the resources needed to address the workload. While the former maintenance/engineering manager for Tenant Services contends that a comprehensive preventative maintenance program would initially require double his current staff, without better management information, it is impossible to determine Tenant Services' resource needs.

The DOA also needs to maintain historical information for each building system, including when inspections and repairs have occurred, how much time these inspections and repairs have taken, and their associated costs. Such information is important for determining equipment condition and developing budgets, and for scheduling.

To facilitate the capturing and analysis of management information, Tenant Services needs to speed implementation of its automated system. In August 1992, the DOA purchased software to assist Tenant Services in identifying needed work, assigning resources, and tracking progress. Once implemented, the software could also streamline scheduling, recordkeeping, and managing operating costs. However, at the time of our audit, Tenant Services staff estimated that they were using only about 5 percent of the software program's capacity. Tenant Services' officials attribute delayed implementation to lack of the necessary personnel and computer equipment needed to implement the system.

Inadequate funding — The DOA maintains that insufficient funding has also impeded its ability to provide comprehensive preventative maintenance. Interviews conducted with DOA staff suggest that Tenant Services' HVAC and General Maintenance Units do not receive the funding necessary to complete the day-to-day building repairs. However, repeated attempts to document the actual amounts spent on building repair versus the amount necessary, proved futile. Therefore, we were unable to demonstrate the extent to which inadequate funding has hampered the DOA's establishing a preventative maintenance program.

Pilot Program Needed to End Cycle of Neglect

The state needs to implement a pilot program to stop the cycle of building neglect. By investing in a pilot program in two or three buildings, the state can begin the process needed to save money in repairs and maintain its investment in buildings.

Pilot program needed to end cycle — As described previously, the state is caught in a vicious cycle with regard to building maintenance. Lack of preventative maintenance leads to more extensive and expensive building repairs. When these repairs occur, they further divert resources from preventative maintenance. While preventative maintenance will over time more than pay for itself by reducing unnecessary repairs, there are currently not enough resources to make the needed repairs and to conduct preventative maintenance. Rather than let the situation continue to worsen indefinitely, the state must end the cycle, if only a few buildings at a time. By investing in a pilot program in two or three buildings, the state can begin the process needed to save money in repairs and maintain its investment in buildings.

Cost of pilot estimated at $88,000 to $134,000 — To estimate the cost of implementing a pilot program, we first selected two "typical" DOA-managed buildings for in-depth review. After considering building age, size, replacement cost, and significantly unique usage, we chose the Corporation Commission and the Attorney General's Office buildings.[(1)]

Next we contacted the building maintenance managers of the Department of Economic Security and the Supreme Court buildings as both managers are responsible for operating preventative maintenance programs for non-DOA-managed state buildings. These managers provided information regarding their workload, staffing levels, and operating costs. Further, we consulted an engineer with over 20 years' experience in institutional maintenance to assist with developing estimates.[(2)]

Based on this information and assistance, we estimate the cost of a pilot preventative maintenance project for the Corporation Commission and Attorney General's Office buildings would be between $88,000 and $134,000. These cost estimates include salaries and employee-related expenses, operational costs, and material expenditures. We projected that the work order system would schedule over 900 total work orders and more than 3,300 tasks per year. Also, the pilot would require one full-time program supervisor and approximately 3,800 to 4,500 maintenance support hours to implement.

DOA has also proposed developing a pilot program, but would prefer to begin with buildings other than those used in our analysis. Our purpose in selecting the Corporation Commission and Attorney General's office building was to provide an estimate of what it would cost to implement preventative maintenance programs in two "typical" DOA buildings. While DOA has not made a final selection as to buildings it would propose for a pilot program, they would prefer using buildings which do not share the same cooling system to facilitate development of "costs per building." Once DOA has made its building selection, it will need to develop cost estimates specific to those buildings.

In addition to monies needed for preventative maintenance, funds may be needed to address building renewal needs. As noted in our 1993 report on DOA's Building and Planning Services Section (Report No. 93-9), only one-half of the monies needed for building renewal needs were appropriated from fiscal years 1987 to 1993. Therefore, initial building and equipment assessments and periodic inspections will likely reveal significant problems resulting from years of neglect. However, until the inspections are conducted and the problems identified, total costs cannot be estimated.

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(1) The Attorney General's office building and the Corporation Commission building were included together in our review because the two buildings share the same air cooling system. The air cooling system (which is one of the major building systems) is linked to both buildings through an underground connection. The Corporation Commission building is 14 years old, 41,726 square feet, and has a replacement value of $2,670,751. The Attorney General's office building is 13 years old, 101,741 square feet, and has a replacement value of $6,585,616.

(2) Because of the technical nature of the maintenance issues addressed in this report, we solicited the help of a consultant, Leo Mortensen, as part of our Office's Volunteer Program. Mr. Mortensen has over 20 years' management experience in institutional maintenance.

It may take several years to gather the data and see cost savings resulting from the pilot project. However, DOA's success in implementing the program can be measured much sooner. After the pilot project has been operational for one year, DOA should have developed a comprehensive work order system for the buildings selected. Further, DOA should be using the work order system to both schedule work as well as determine resource needs. Thus, the type of work performed should shift from reactive ("fixing what breaks") to preventative (work which is routinely scheduled and performed). In addition, DOA should be able to list all preventative maintenance work completed, the time required to perform the work, and the associated costs.

RECOMMENDATIONS

1. The Department of Administration should devote adequate resources to ensure full implementation and operation of Tenant Services' automated system.

2. Tenant Services should conduct a thorough building systems and components inventory and incorporate it into its automated system.

3. The Legislature should consider funding a pilot project of two or three state buildings to begin the process needed to save money in repairs and maintain the state's investment in its buildings. At the end of one year, the Legislature should review how well DOA has implemented the pilot project and consider expanding funding to other DOA-managed buildings.

FINDING II

THE DOA PROVIDES MEDIOCRE CUSTODIAL SERVICES AT A HIGH COST

Although the DOA's costs for custodial services are significantly more than the private sectors', state buildings serviced by DOA custodians receive only superficial cleaning. Thus, the state is essentially "paying more for less." The state could save nearly $700,000 annually by contracting for custodial services. However, if the DOA continues to provide in-house custodial services, it must significantly improve its management and performance of this function.

Appropriate custodial services contribute to a clean, safe, and acceptable work environment. Clean working conditions allow state employees and the public to conduct the state's business more efficiently, and also help maintain buildings by preventing dust and debris from causing damage or deterioration to flooring, walls, and equipment. Proper cleaning requires the frequent, even daily, performance of some tasks such as emptying wastepaper baskets, cleaning rest rooms, vacuuming carpets, and sweeping floors. Other tasks should be performed periodically, including cleaning stairwells weekly, vacuuming drapes quarterly, and shampooing carpets and washing walls annually.

Only Minimal Cleaning Provided

State buildings serviced by DOA custodians receive only superficial cleaning. Many daily or periodic tasks are not performed on schedule, and some tasks are never performed. As a result, tenants who rely on the DOA are dissatisfied with its mediocre services.

Basic cleaning — In many building areas the DOA provides only three basic cleaning tasks on a daily basis: cleaning rest rooms, emptying the trash, and vacuuming lightly. The DOA has termed this level of cleaning "priority" cleaning, and implemented it because of high staff absenteeism. As a result, on any given night at least 20 percent of the Capitol Mall building space (or the equivalent of 6 of the 40 DOA-managed buildings) receive this inadequate cleaning level. However, custodial supervisors indicate priority cleaning may be more widespread as it has become a standard practice. Therefore, some daily tasks, such as dusting and cleaning drinking fountains, are not frequently completed.

Likewise, we found many nondaily tasks are not completed on a regular basis and some services are not performed at all. We inspected six buildings in the Capitol Mall Complex and saw areas where window sills, walls, baseboards, and blinds were dusty and dirty. We also noticed dirty vents, light fixtures, and windows. Because the DOA has failed to systematically schedule and complete periodic tasks, it could not document how frequently these tasks have been performed or when they were last provided. Some tenants contend that services such as carpet cleaning and window washing have not been done in several years.

Dissatisfied tenants — Tenants in the buildings we inspected voiced dissatisfaction with the custodial services they receive. Four of the five building managers we spoke with rated the DOA's custodial services as extremely poor. One tenant categorized these services as the "worst services the DOA provides." Another tenant indicated agencies would rather contract with outside vendors than receive services from the DOA. In fact, two agencies use their own funds to contract for some custodial services, such as interior and exterior window washing, because the DOA has not provided these services as it should. Furthermore, in addition to DOA-assigned custodians, the Department of Corrections has formed an inmate custodial crew to clean its building.

The DOA Should Consider Contracting

Not only are the DOA's tenants receiving substandard service, they are also paying a premium price for it. By contracting for custodial services, the state could save nearly $700,000 annually. Additionally, privatization may improve the level of service agencies receive.

Cost savings — The DOA's in-house custodial services are expensive. The state spends over $2,000,000 annually, or approximately $1.00 per square foot, providing custodial services for the DOA-managed buildings. Private sector custodial firms deliver services for considerably less. We received phone quotes for basic cleaning services from four private firms, which ranged from 48 to 78 cents per square foot. We also reviewed 21 formal bids that the DOA received for a recent full-service custodial contract, which ranged from 33 cents to $1.06 per square foot, with an average of 60 cents per square foot.(1) If the DOA were to contract at the average of 60 cents per square foot for custodial services, the state would reduce its custodial costs by $900,000 annually.

(1) The contract proposal was for providing cleaning services to the Sun State Savings building. The DOA selected the lowest bidder at 33 cents per square foot, or $33,000 annually.

However, an estimated $200,000 would be needed for contract monitoring, reducing the overall savings to $700,000.[1]

The state's higher in-house costs are primarily due to costly state employee wages and benefits. While the starting wage for the DOA's new custodial worker I's is $6.15 an hour, the average wage earned by this entry-level group is $7.32 an hour.[2] The state also provides employee benefits, which account for approximately 23 cents of the state's $1.00 per square foot cost. In contrast, the private sector pays minimum wage ($4.25) to entry-level custodians, and seldom offers benefits.

Other considerations — In addition to cost savings, other features of service contracts should be considered. Our literature review identified several positive features of contracting. For instance, service may improve due to higher worker productivity, and through the use of better equipment. However, some unfavorable points were also identified. For example, the possible displacement of many employees, and the potentially poor performance of a contractor, may reduce any cost savings achieved through contracting. Nevertheless, the literature also suggests these downfalls could be managed; for example, through redeployment and contract monitoring.

Significant Changes Are Needed

Because contracting for custodial services would require the termination of nearly 100 employees, the state may decide to retain its in-house services. However, if the DOA continues providing in-house custodial services, it must make considerable modifications. It must significantly improve its management and institute quality control measures to increase the level of service it provides.

Management changes needed — Lack of vital information has hindered the DOA's management of the custodial operation. Although the DOA contends it has a staff shortage, it can not show how many additional staff are needed and why. Based on our review, it appears the DOA has an adequate number of custodians. For example, contacts with private sector firms indicate a custodian should be able to clean an average of 23,000 to 33,000 square feet per eight-hour shift depending on area

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(1) Our estimate assumes that contractors be responsible for providing the same basic custodial services for which DOA custodians are currently responsible. During the course of our review, DOA contacted a large custodial firm to obtain an estimate of its costs to provide custodial services. The firm toured the DOA-managed buildings and developed an estimate of its costs. While the custodial firm's estimate was based on providing a higher level of custodial service, its overall estimated costs were still $180,000 less than the state's current custodial expenditures.

(2) The average wage may be high due to increases in salaries for employees with long terms of service. For example, several custodial worker I's wages exceed $8.65 an hour. All of these employees have been with the state for over 14 years.

congestion.[1] Applying these private firm standards to the DOA's current building square footage, DOA's custodial staffing levels equate to 25,000 square feet per custodian per eight-hour shift.

We found cleaning time standards exist for most custodial tasks. Information such as cleaning time standards, actual area covered, and congestion factors should be used by the DOA to evaluate the number of staff required.

Likewise, absenteeism has not been adequately managed. We found the DOA's absenteeism rate to be fairly consistent, suggesting that it should be revising staff coverage areas, providing a floating team, or hiring temporaries.[2] Instead, it has lowered its level of service by institutionalizing priority cleaning and using the janitors designated for heavy-duty cleaning and an inmate crew to fill in for absent employees.[3]

***Quality control needed* —** Poor quality control also prevents the DOA from operating efficiently. We found that unlike the private sector, the DOA has no regular method for inspecting buildings' cleanliness or assessing work quality. For example, one supervisor indicated he tries to inspect areas nightly, whereas another indicated he might inspect each area about once a week. Because we found some building areas are poorly cleaned, a standard inspection program may help the DOA to ensure that all staff clean the buildings satisfactorily.

Insufficient training may also result in quality control problems. The DOA's custodians receive very little training. For the past two fiscal years, the DOA has not budgeted any money for training costs. The private sector, conversely, stresses regular supervisory inspections and continuous training as a means of quality control.

RECOMMENDATIONS

1 Based on cost savings and other potential benefits, the DOA should consider contracting for custodial services.

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(1) Area congestion relates to the amount of furniture per floor space. The more congested an area, the slower a custodian can clean, and vice versa.

(2) Based on handwritten attendance charts (January through June 1993), we found a 13.7 percent absenteeism rate, with the majority of absenteeism falling into the annual leave and sick leave categories.

(3) The DOA uses five to seven ADOC inmates nightly. These inmates were originally assigned to work with the DOA's "heavy-duty" janitors on cleaning carpets and hard floors; however, at the time of our review, these inmates and two heavy-duty janitors were primarily assigned to daily cleaning tasks.

2. If the DOA retains its custodial services, it should improve its management and performance by formally scheduling nondaily tasks, maintaining critical information, formulating a plan to deal with staffing problems, and increasing quality control through regular training and inspection.

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FINDING III

THE DOA NEEDS TO CALCULATE ITS COST OF OPERATING STATE BUILDINGS AND LINK THESE COSTS TO RENTAL RATES

While the DOA is a major lessor and manager of building space, it is unaware what it costs to operate and provide services to the buildings it manages. Without this crucial cost information, the DOA has been unable to determine which building services are not cost effective and which need additional funding. Once the DOA establishes its costs, the Legislature should consider revising the process used to set rental rates so that the DOA is funded on a cost-recovery basis.

The DOA's Tenant Services is a major lessor and manager of building space. It has direct oversight and management responsibilities for 40 buildings and over 121 acres of grounds, and provides partial services to four additional buildings.[(1)] Of these 44 buildings, 35 are state owned and 9 are lease purchased. Tenant Services performs a role similar to a private building management company — it pays utility bills and provides maintenance, engineering, custodial, and groundskeeping services.

DOA Needs To Determine Its Building Service Costs

The DOA does not know the cost of providing each of its building services. Cost information is essential to determining which services receive too much funding, and which are underfunded. The DOA can then use this information to conduct further evaluation of problem areas.

The DOA needs to calculate service costs — Establishing a unit cost is a critical first step for converting building data into a form that is meaningful for building management purposes. Once established, cost information can be used to determine the cost effectiveness of services. Our evaluation of the DOA's cost of providing custodial services, for example, identified a potential target area for cost reduction.

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(1) The 40 buildings maintained by the DOA are located in the Capitol Mall in Phoenix, and the state office complex in Tucson. The four buildings receiving partial DOA services are also located in the Capitol Mall and include the Arts Commission building (groundskeeping), the Courts buildings (groundskeeping and utilities), and the House and Senate (groundskeeping, maintenance and engineering, and utilities.)

- After dividing the DOA's total operational costs for custodial services (i.e., personnel, employee related, and operating expenditures) by the total gross square footage serviced, we found that the DOA's costs run about $1.00 per gross square foot. After comparing these costs to those of the private sector, we found the DOA's costs per gross square foot to be about $.40 higher. Therefore, by conducting this function in-house, the DOA is paying $700,000 more per year than if it were to contract for this service.

Additionally, unit cost figures can also identify underfunded areas. For example, our review found few resources dedicated to preventative maintenance (See Finding I, pages 7 through 12).

Cost information can convey solutions — Once the DOA has calculated its unit costs and identified areas of concern, it can then conduct further evaluation to determine what action is needed. For those areas that are not cost effective, the DOA could study whether the service should be retained in-house and streamlined, or whether contracting would be a less expensive alternative. For those areas that appear to be underfunded, the DOA can determine whether additional monies are indeed needed, and then consider reallocating monies from "overfunded" services, or requesting additional monies in its budget request.

Change In Funding Method Could Improve DOA's Accountability

The Legislature should consider changing the way the DOA is funded for its building services to hold it more accountable for both service cost and quality. The DOA's current funding sources do not consider its actual cost of providing building services. Adopting a cost-recovery funding method would provide this valuable link.

Current funding lacks tie to service costs — The DOA currently receives funding from two sources: The General Fund and the Capital Outlay Stabilization Fund (COSF).(1) General Fund appropriations cover the DOA's custodial, groundskeeping, engineering and maintenance costs, while COSF appropriations primarily pay for utility costs. However, the funding amount the DOA receives is not linked to its actual cost of providing these services. Therefore, the Legislature has no means of knowing whether the DOA's services are cost effective, and cannot hold the DOA accountable for providing high quality and cost effective services.

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(1) COSF monies are generated by charging agencies rent for occupying space in state-owned buildings. Agencies are charged $11 per square foot for usable space and $4.50 per square foot for storage space (usable space does not include areas such as rest rooms, elevators, or public corridors and lobbies).

Operating more like private sector could improve accountability — Organizations leasing commercial space typically are provided with comprehensive building services including utilities, housekeeping, landscaping, maintenance/repair, security, and parking as part of their lease agreement, and in return for paying rent. Because there is a relationship between the rent paid and the services received, and because the rent and services can be compared to other lessors', there is an incentive to provide quality services as efficiently as possible.

DOA Tenant Services could operate in a similar fashion to the private sector lessors. If agencies occupying space in DOA-managed buildings were charged a rental fee based on the cost of services rendered, the DOA could be held accountable for providing high-quality, cost-effective services. The following examples illustrate methods for charging agencies rent:

- Florida bases its rental charge on a cost per square foot. Florida's rate combines several precisely figured components. Its current $14.38 per square foot rate includes (among others) the following components: capital depreciation, $1.38; utilities, $2.80; refurbishment, $0.25; and building maintenance and administration, $3.48. Florida's Management Services Department (similar to DOA-Tenant Services) uses both in-house staff and contracted services depending on market rate, building needs, and cost effectiveness.

- Maricopa County allocates costs among agencies using three separate mechanisms. The first mechanism allocates cost by determining the floor space or area covered by a service. For example, the County uses square footage to divide custodial service costs among agencies. A second mechanism assigns costs by the number of items used. For example, the County bases parking garage assessments on the number of parking spaces used. The third mechanism allocates costs using service level charges. The County determines the cost for the service level deemed appropriate. If a tenant needs an increased service level, the County recoups its cost by calculating the extra expense. Because each agency uses different services, each agency rental charge may be unique. A County official indicated agencies pay for the services they use without subsidizing other agencies.

Using funding approaches such as these offers several advantages. First, the DOA would be more accountable for its service costs, because users of DOA services would have a means of comparing the DOA's costs to the private sector's. Further, as all agencies using services would be required to pay for services received, subsidization by others would be eliminated.[1] Finally, like Maricopa County, agencies could pay an additional fee to increase their service levels. For example, a tenant might pay an additional amount for more frequent blind cleaning and carpet shampooing. The tenant would reimburse the DOA for its increased costs.

RECOMMENDATIONS:

1. The DOA should establish the unit cost and the cost effectiveness of each service it provides.

2. The Legislature should consider eventually funding the DOA through a cost-recovery system that would charge rent to all agencies occupying space in DOA-managed buildings based on the cost of services rendered.

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(1) Some consideration would need to be given as to how to link rental rates and the typically higher-than-marketplace costs of lease-purchased space. Under the current method, agencies in state-owned buildings pay COSF rent. However, agencies in lease-purchased buildings in the Capitol Mall Complex pay towards their Certificate of Participation (COP), but do not pay an additional amount to offset utility costs. Therefore, agencies in state-owned buildings are subsidizing the utility costs for agencies in these lease-purchased buildings. One solution could be to assess these agencies an operating and maintenance fee, as is currently required of agencies housed in the recently acquired distressed properties.

FINDING IV

ARIZONA NEEDS A COORDINATED APPROACH TO ADDRESSING STATEWIDE FLEET ISSUES

Although Arizona owns and operates a large fleet of vehicles, management of the fleet is fragmented among more than 10 separate agencies, resulting in lost opportunities to reduce costs on a statewide basis. To provide a statewide perspective on fleet issues, the state should centralize responsibility and accountability within one entity. While the DOA would organizationally be the logical agency to provide statewide coordination, such an endeavor would require significant upgrades of the DOA's personnel and information system. For these reasons, the state may also want to consider the Arizona Department of Transportation for this purpose. Regardless of who is selected for the lead role, an advisory committee of state fleet professionals should be utilized to assist in addressing statewide fleet issues.

Responsibility for Vehicles Fragmented

A.R.S. §41-803.A. authorizes the Director of the Department of Administration to operate a motor vehicle fleet for all state-owned motor vehicles. However, statutes and intergovernmental agreements have excluded a number of agencies from participation in the state motor vehicle fleet.[1] As a result, over 80 percent of state vehicles are outside of the DOA's control. As of November 1993, the state owned approximately 8,000 passenger vehicles, with an asset value of nearly $80 million. An estimated 1,500 vehicles are owned by the DOA's Fleet Management Program. The remaining vehicles are either owned by exempt agencies or were purchased by nonexempt agencies but not brought into DOA's program. Thus, responsibility for state vehicles is fragmented among more than ten separate entities.

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(1) Agencies excluded from participation in the state motor vehicle fleet per A.R.S. §41-803.E include the Department of Public Safety, the Department of Transportation, the Department of Economic Security, the Department of Corrections, and the universities and community colleges. Further, the State Compensation Fund statutes exempt it from DOA oversight. In addition, both the Game and Fish Department and the State Mine Inspector have entered into intergovernmental agreements which allow them to maintain and operate their own vehicle fleets with minimal DOA oversight or control.

Lost Opportunities To Reduce Costs

Without centralized review of fleet issues, the state misses opportunities to reduce fleet operating costs and increase efficiencies. Currently, there is little sharing of maintenance and repair facilities. Further, use of state fuel pumps is not maximized, and there is no statewide coordination of fuel tank replacement. In addition, the state lacks standardized approaches for accident prevention and review, monitoring of vehicle utilization, and defining appropriate use of state vehicles.

- **Maintenance and Repair** — The state should explore whether increased coordination of maintenance and repair facilities as well as statewide contracts for some services would be cost beneficial. Nine agencies currently have developed their own facilities to maintain and repair vehicles. However, while over 30 separate facilities are located throughout the state, agencies with facilities will primarily service only their own agency's vehicles. Thus, those agencies without access to a state facility rely on private vendors for maintenance and repair.

  A comprehensive evaluation is needed to determine whether increased sharing of facilities could reduce the cost of maintaining the states's fleet. For example, the Game and Fish Department has recently contracted with the Arizona Department of Transportation (ADOT) to maintain its vehicles. In addition, a review should be conducted of existing facilities to determine whether facilities could be consolidated. Currently, a project is underway in the Phoenix metropolitan area to collocate all DOA repair services at the ADOT Durango Repair Facility. A statewide review of the state's fleet facilities could identify other opportunities for either coordination or consolidation.

  A statewide review should also be conducted to determine if it is more convenient, as well as cost effective, to contract for some services, such as oil changes. Several states, for example, contract with private vendors such as Jiffy Lube and Minut Lube to provide oil changes.

- **Fuel** — A statewide approach to fuel is needed to encourage greater use of existing state pumps, to reduce the cost of fuel purchased from private vendors, and to address replacement of underground fuel storage tanks.

  Through greater utilization of existing state fuel pumps, the state could reduce its overall fuel costs. As with maintenance and repair facilities, many agencies own fuel pumps but there is a lack of statewide coordination to maximize their usage. As a result, many state employees purchase fuel from private vendors when it would be far cheaper to use state fuel. According to an ADOT official, its per gallon charge for fuel is generally 10 to 20 cents less than the private vendor rate.[1] While no statewide data exists regarding fuel purchases, we obtained information from the DOA regarding its fuel purchases. According to DOA records, 46 percent ($467,000) of fuel purchased by the DOA during fiscal year 1992-93 was purchased from private vendors. Assuming all of these purchases could have been made at state fuel sites, the state would have saved approximately $50,000 to $75,000. Further, when there is a need to purchase from private vendors, a statewide contract may reduce the per-gallon cost of fuel.

- **Automated Fueling Systems** — Greater sharing of resources among agencies may also make it more cost-effective to install improvements in the system, such as automated fueling systems. Automated fueling systems can provide such additional benefits as eliminating manual record-keeping, providing information on fuel usage by individual vehicle, reducing or eliminating the need for pump attendants, and deterring theft.

- **Fuel Storage Tanks** — Finally, the state should also establish a statewide plan for meeting Environmental Protection Agency (EPA) guidelines for underground fuel storage tanks. As of January 1994, 13 state agencies had more than 200 underground storage tanks the majority of which will need removal, remediation, and/or replacement with either in-ground or above ground tanks to meet the EPA's stricter guidelines.[2] To date, agencies with underground storage tanks are at various stages of addressing their agency's replacement needs. Utah conducted a statewide review of its underground storage tanks. By taking a statewide approach to this area, Utah estimated a savings of $10 million over a 10-year period.

In addition to these areas, others to review on a statewide basis include: the state's progress in replacing vehicles with those capable of using alternative fuels; the need to establish a standard program for accident prevention and review; the need to develop utilization standards for determining whether vehicles are fully utilized and properly deployed; and the need for standards defining appropriate vehicle use and a centralized system for addressing complaints of abuse.

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(1) The 1993-94 average cost for fuel purchased by ADOT was 83 cents. ADOT adds a 5 cent per gallon administrative charge for fuel used by other state agencies. Private vendors charge the state their pump price, less the 18 cents per gallon federal excise tax. The difference between private vendor rates and ADOT rates is about 10 to 15 percent.

(2) According to an official from the Department of Administration's Risk Management Office, the number of underground storage tanks has dramatically decreased. Many of the state agencies faced with expensive cleanup and replacement costs have chosen instead to eliminate underground storage tanks.

Responsibility for Addressing Statewide Vehicle Issues Should Be Affixed

To gain the benefits of a statewide approach, someone has to ultimately be responsible and have authority for addressing issues regarding the state's fleet. Over the years, a number of other states have found that without central responsibility and authority, an effective statewide approach cannot be established. While organizationally DOA would be the logical agency to provide this statewide coordination role, it would require significant improvement in its operations to do so. If DOA is unable to make needed changes, the Arizona Department of Transportation should be considered for the lead agency for this purpose. Regardless of who provides the lead role, an advisory committee should be utilized to assist in addressing statewide fleet issues.

As noted earlier, the state currently has ten separate entities with their own fleet systems. While many of these agencies already have well-established systems in place for managing their fleets, the state lacks the ability to look at its fleet from a statewide perspective to ensure maximum efficiency.

Other states' studies have recommended centralization — We reviewed a number of audit reports of fleet management operations in other states including Colorado, Florida, Kansas, Mississippi, New Jersey, South Carolina, Utah, and Virginia. In addition, we contacted fleet managers from other western states including California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah, and Washington to obtain information on their fleet operations.

We found that other states faced statewide issues similar to those Arizona faces. Two states in particular, Colorado and South Carolina, had previously studied and attempted to address these issues in the past. Their attempts were unsuccessful, and follow-up audits concluded that the reason was that no agency had been made accountable and responsible for statewide management. Most of the studies we reviewed and other state officials we interviewed recommended placing this authority within one central fleet manager.

The DOA currently incapable of handling statewide fleet issues — Addressing statewide issues will require capturing statewide fleet information, conducting sophisticated analyses of this information, and possessing knowledge of state-of-the-art fleet practices. While organizationally it makes sense to address statewide fleet issues through the Department of Administration, the DOA's motor vehicle fleet operation may not currently be capable of handling such an assignment for two reasons. First, the DOA does not have the caliber of professional staff needed to oversee a comprehensive fleet management program. Fleet management is increasingly a professional, specialized area of management. An effective fleet manager needs to be knowledgeable in vehicle acquisition and marketing, management principles, computerization, law, insurance, safety, finance and accounting, and vehicle technology and maintenance.[1] The City of Phoenix and Salt River Project require their fleet administrators to have both a college degree and several years of fleet management experience. The DOA, however, does not require previous fleet management experience. In fact, its current fleet manager position is classified as an Administrative Services Officer. Further, the current fleet manager's experience prior to joining the DOA was primarily in vehicle service and sales.

DOA also needs to consider adding technical positions to assist in oversight of the state's fleet. In contacting the City of Phoenix, and Salt River Project, we found they employed information specialists, transportation engineers, and equipment analysts to provide both the information and problem-solving skills necessary for efficiently overseeing a large fleet. Further, both SRP and the City of Phoenix required employees in these positions to have advanced degrees and related experience.

Second, the DOA currently lacks the ability to generate the information needed to effectively manage a fleet. In order to do so, an agency needs to track such things as vehicle utilization, cost information, fuel utilization, and maintenance and repair histories. The DOA has computer software designed to track these items; however, the DOA has not utilized the system for generating management information for these areas because it can not trust the information. In reviewing reports generated from the DOA's system, we discovered obvious data flaws. Further, after comparing a sample of hard record files for maintenance and repair to the automated system, we discovered that the system was altering mileage figures, and misadding expenditure information. At the time of our review, the DOA was unaware of these system "bugs." In contrast, the Arizona Department of Transportation uses the same software as DOA; however, it heavily relies on its system to provide management information. Further, it has enhanced its system with software which allows it to obtain special reports. In addition, ADOT has an information specialist who is responsible for the system's integrity.

Alternatives to the DOA — If the DOA cannot upgrade its staff and automated system to the level needed to address statewide issues, the state may want to consider having another agency meet this need. One agency which could be considered is ADOT. ADOT already employs a number of fleet specialists and has a sophisticated information system. ADOT also currently owns the largest vehicle fleet in the state. Further, it has the most repair and maintenance facilities and fuel sites, which are distributed throughout the state.

Advisory committee needed for input and decision-making — Some states that have moved to centralize motor vehicle operations use advisory committees to provide input in developing statewide policies, procedures, and programs. For example, Washington established a motor vehicle advisory committee composed of representatives from state agencies, institutions of higher education, and the private sector.

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(1) The National Association of Fleet Administrators requires those seeking to become certified automotive fleet managers to pass a written exam concentrating on these areas of fleet management.

RECOMMENDATIONS

1. The Legislature should consider revising statutes to affix the authority and responsibility for addressing statewide motor vehicle fleet issues within one entity. Further, statutes should establish a committee consisting of representatives from state agencies to advise the responsible entity on policies, procedures, standards, and implementation of programs in the motor vehicle fleet area.

2. The motor vehicle advisory committee should study measures that could reduce the state's fleet operating costs, including: sharing of maintenance and repair facilities, maximum usage and automation of state fuel pumps, and coordinated replacement of underground storage tanks. Further, the committee should address how the state can monitor its progress in implementing the alternative fuel program. Finally, the committee should develop standards for accident prevention and review, vehicle utilization, and personal use of vehicles.

FINDING V

THE DEPARTMENT OF ADMINISTRATION NEEDS TO IMPROVE MANAGEMENT OF ITS TAXI FLEET

The Department of Administration (DOA), Fleet Management Office is not effectively managing its taxi fleet. While many requests for taxi vehicles for out-of-town trips are denied, the Fleet Management Office is dedicating more than half its taxi fleet to state employees for low-mileage in-town travel. In fact, nearly 25 percent of taxi rentals were for trips of 10 miles a day or less. In addition, it has allowed monopolization of the fleet by some agencies and employees, thus impacting vehicle availability for others. The DOA needs to develop rules governing usage of taxi vehicles, and use these rules to actively manage the taxi fleet. Further, once new rules are in place and inappropriate use of the taxi fleet is halted, it needs to determine whether its fleet could be downsized.

Background

The Fleet Management Office operates a taxi fleet of over 400 vehicles. The fleet consists of numerous vehicle models which are grouped into vehicle classes ranging from sedans, to pickups, to passenger vans. The rental rates are made up of a daily charge of $6.50 to $12.00 per day, plus a mileage charge of 9 cents to 16 cents per mile, depending on the vehicle class. Taxi vehicles are intended for temporary assignment, 30 calendar days or less, by short-notice dispatch to agencies as needed. The Fleet Management Office also fills special-need requests for vehicles with special notification.

Taxi Requests Frequently Not Met

The DOA's current process for requesting a taxi vehicle is inconvenient for its users. Further, requests for vehicles frequently go unmet, causing further employee inconvenience.

Users are inconvenienced by the DOA's reservation policies — Obtaining a taxi vehicle can be a frustrating experience. Current DOA policies indicate that reservations must be made no more than five business days in advance and reservations are on a first-come, first-serve basis. However, because of the high demand for taxis, employees often call from home at 6:00 a.m. to obtain reservations. When vehicles are not available, the employee's name is put on a waiting list. The employee is then told to call back at 4:00 p.m. the day before they need the vehicle to see if one is available. If an agency does not pick up their vehicle within one hour of the requested time, the Fleet Management Office will rent it to a subsequent requestor rather than call a name on the waiting list.

Employees who do not know their vehicle needs at least five days in advance, and those who do but are unable to obtain reservations, must make other arrangements for transportation. This may include using personal vehicles and being reimbursed for mileage, renting vehicles from private rental companies, or using available public transportation. Failing these options, they may have to cancel or reschedule their business.

Significant number of taxi requests not met **–** In June 1993, DOA began tracking various service measurements on fleet management operations, including the number of taxi requests not met. We reviewed the service measurement reports from July through December 1993 and found fleet management was unable to fill an average of 132 taxi requests per month. We then analyzed taxi requests not filled for six weeks of this six-month period to determine the purpose of the requests.(1) We found that 70 percent of these requests were for out-of-town needs. These out-of-town requests would appear to be a priority for taxi use as: 1) they are the most cost-effective use of the taxis because of the number of miles driven, and 2) it is more difficult to fill these needs through other options.

Taxi Availability Hindered by Poor Usage

DOA claims that they do not have enough vehicles to meet their customers' needs; however, the size of the fleet does not appear to be the problem but rather how the taxis are used. Based on our analysis, over 51 percent of taxi rental use was for trips of 45 miles or less per day. In addition to tying up vehicles with short trips, the Fleet Management Office is allowing monopolization of the fleet by some users.

Half of the taxi usage is for short local trips **–** The use of taxi vehicles for primarily short local trips is affecting taxi availability. We analyzed DOA taxi billings from April through September 1993, to determine vehicle usage. Our analysis was based on the premise that vehicles driven more than 45 miles per day are properly utilized.(2) We

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(1) Motor Pool does not maintain detailed information on agencies whose taxi requests were not met. Therefore, we asked them to log the date, agency, vehicle type, destination, and number of passengers on taxi requests not met for a six-week period.

(2) The DOA stated that taxis are operated 22 days per month. Vehicles are considered fully utilized at 1,000 miles per month. We divided 1,000 miles by 22 operating days per month to get 45.45 miles per day. Therefore, vehicles driven more than 45 miles per day are considered fully utilized.

found that the motor pool processed 6,417 taxi rentals during the April through September 1993 time period. Of these rentals, 3,323, or 51.8 percent, were for usage of less than 45 miles per day, which we refer to as underutilized rentals.

The underutilized taxi rentals were further analyzed to determine the extent of underutilization. During the 6 months examined, 25 percent of the underutilized rentals were used 10 miles or less per day. The number of trips in the 10-miles-or-less per-day category alone would cover the number of taxi requests not filled each month.

Table 2

Underutilized Taxi Rentals
For April Through September 1993

Number of Categories	Rentals
Rentals at 10.0 miles or less per day	829
Rentals at 10.1 to 20.0 miles per day	859
Rentals at 20.1 to 30.0 miles per day	826
Rentals at 30.1 to 40.0 miles per day	584
Rentals at 40.1 to 45.0 miles per day	225
Total Underutilized Rentals	3,323

Source: Auditor General analysis of DOA taxi billings.

Listed below are a few examples of underutilized rentals.

- Two agencies had taxis out for 15 days and only logged 1 mile on each vehicle.
- Nine agencies had taxis out for 1 day and only drove 1 mile on each vehicle.
- One agency had a taxi out for 94 days and drove only 19 miles
- One agency had 279 taxi rentals out for 15-day periods between April and September 1993 and drove each of them only 10 miles or less per day.

While we recognize that there is a regular need for state employees to travel short distances on state business, alternatives to the taxi fleet exist and should be encouraged. One alternative is to encourage state employees to use their own vehicles for short local trips whenever possible. The cost of using a state motor pool vehicle is significantly higher for short trips than reimbursing personal mileage. We compared the cost of reimbursing mileage for the short trips identified in Table 2 (see page 31) versus renting vehicles from the motor pool. State agencies paid approximately $98,000 more in taxi charges during the 6 months examined, on the 3,323 underutilized rentals, than they would have spent on personal mileage reimbursement. Second, as noted in Finding IV (see pages 23 through 28), most state agencies have permanent vehicles assigned which are available for use by their employees. The DOA should encourage agencies to utilize these permanently assigned vehicles for short trips, and use the taxi fleet as a "last resort."

Fleet management practices tie up taxis — In addition to taxi rentals being used for short trips, Fleet Management is also not monitoring assignment practices to ensure the fleet is used for its intended purpose. We found that the Fleet Management Office is allowing monopolization of the fleet by some users.

- The Fleet Management Office has allowed the Department of Economic Security, which is exempted by A.R.S. §41-803 from participation in the state motor vehicle fleet, to utilize over half of the taxi fleet at any given time. By allowing such monopolization, vehicles are not available for use by other "nonexempt" agencies. As noted earlier, agencies are required to meet ongoing needs with permanent vehicles, and only use the taxi fleet for short-term needs. It appears that the DES is relying on the DOA's taxi fleet to fulfill its vehicle shortage.

- The Fleet Management Office has also allowed some state employees to receive continuous taxi rentals which contradicts the purpose of the taxi fleet and significantly impacts vehicle availability. The Fleet Management Office staff identified 89 "continuous" users who are automatically given a different taxi vehicle every two weeks.

Changes Needed To Encourage Appropriate Fleet Usage

The DOA's Fleet Management Office needs to become proactive in managing the central taxi fleet to ensure it is used both appropriately and cost effectively. Proactive management should include defining appropriate use of the taxi fleet, encouraging the most cost-effective mode of travel, and requiring agencies to fulfill long-term vehicle needs with permanent vehicles. After fleet management changes its operations, the DOA needs to evaluate whether its fleet size could be reduced.

Guidelines addressing taxi use and mileage requirements — The Fleet Management Office needs to set specific guidelines to encourage cost-effective use of the fleet. First, the Fleet Management Office needs to determine the break-even point on each vehicle class. (The break-even point is the mileage for each vehicle class at which it is less expensive to take a motor pool vehicle versus reimbursing personal mileage.) For example, a sedan costing $6.50 per day plus $0.10 per mile would need to be driven an average of 34 miles or more a day to be less costly than reimbursing an employee $0.29 per mile to drive their own vehicle. The DOA needs to then use these break-even points as guidelines in assessing vehicle requests. For those requests where it is not cost effective to use a taxi vehicle, the DOA should encourage the agency or employee making the request to use an agency-owned vehicle, a private vehicle, or, where convenient, use public transportation.

Dispatching taxis to continuous users — The Fleet Management Office needs to evaluate agencies and employees who are continuous users of the taxi fleet to determine whether the agency is optimally using its own fleet or whether the agency may need to request funding for additional permanent vehicles. As defined in R2-1-204, Categories of Dispatch, an extended dispatch vehicle "is for user agencies which have continuing requirements for official state business travel." Again, the purpose of the taxi fleet is to meet short-term needs.

Size of taxi fleet needs to be reevaluated — Once the Fleet Management Office has revised its policies and procedures to discourage inappropriate use of the taxi fleet, it will need to determine the appropriate size of its fleet. As noted earlier, the fleet currently consists of over 400 vehicles, yet DOA still cannot meet all taxi requests. However, other states reviewed have much smaller fleets. For example, both New Mexico and Colorado have only about 50 taxi vehicles available for short-term use.(1)

The Fleet Management Office has historically addressed demand for vehicles by increasing the size of the fleet rather than addressing the causes of such high usage. In fact, the Fleet Management Office has increased the size of the taxi fleet by over 150 vehicles in recent years by retaining vehicles that should have been surplused. Once new policies and procedures are in place regarding appropriate taxi fleet usage, DOA should realize a significant decrease in vehicle requests. Therefore, it will need to reevaluate its fleet size and determine whether it could be reduced while still meeting the needs of appropriate users.

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(1) Colorado has an additional 100 older, high-mileage vehicles which it provides to agencies for periods of three months or more.

RECOMMENDATIONS

1. DOA should revise its rules and practices regarding taxi dispatch to provide vehicles to agencies on short notice for temporary needs. Specifically, DOA should:

   - Clearly define when the use of a taxi is appropriate and the best mode of transportation for the state.
   - Establish minimum mileage requirements for taxi use.
   - Allow flexibility in reservation practices that conform to the current rules.

2. DOA should encourage agencies with frequent taxi needs to evaluate their own fleets to determine whether they are optimally utilized or whether additional permanent vehicles are warranted.

3. Once the Fleet Management Office has revised its policies and procedures to discourage inappropriate use of the taxi fleet, DOA should determine whether the size of the taxi fleet could be reduced.

OTHER PERTINENT INFORMATION

During the audit we obtained other pertinent information regarding the cost effectiveness of consolidating print shop services within state government.

A function of the Department of Administration is to provide support services to other state agencies, including printing services. Located within the DOA's Special Services section is the print shop operation. It provides printing and copying services ranging from quick copy work to four-color printing work. It employs approximately 20 FTEs and is funded by the Special Services Revolving Fund. However, several agencies have established their own in-house print shops.

Three studies have examined the cost effectiveness of duplicated printing services. They concluded that there should be consolidation and better coordination of the state's multiple print shops.

- In 1990, the Joint Legislative Budget Committee (JLBC) reported that there were nine agencies which had print shops operating (not including the state's universities, judicial or legislative branches).[1] This report recommends additional study, but suggests that consolidation of printing services may reduce the duplication of support services, equipment, and inventories needed to run these nine shops.

- In 1992 Project SLIM (SLIM) recommended that the nine agency print shops be consolidated into two: DOA and the Department of Correction's Arizona Correctional Industries. SLIM estimated the state would save $474,000 through a reduction in personnel and better utilization of its services.

- A Governor's Office for Excellence print shop task team also reported in 1993 that there was a need to establish resource coordination among state agency print shops to better assist management and lower the state's costs.

Although the reports concluded there could be cost savings through consolidation of printing operations, none have been combined or eliminated.

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(1) Department of Administration, Department of Corrections' Arizona Correctional Industries, Department of Economic Security, Department of Education, Department of Transportation, State Compensation Fund, Department of Public Safety, Registrar of Contractors, and the Game and Fish Department.

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AREA FOR FURTHER AUDIT WORK

During the course of our audit, we identified an area for further audit work that we did not pursue due to time limitations.

Does the Surplus Property Management Office (SPMO) adequately protect the value of surplused items and ensure maximum revenues to the state ?

The SPMO's primary mission is to reutilize surplus state and federal property and maximize dollar return on property sold to the public. Used property may be distributed to state agencies for reuse, or to eligible government and nonprofit organizations for reuse. The remaining property may be sold to the general public through periodic auctions. Redistributing usable items reduces state expenditures and the sale of surplus items may generate revenues for the state. The SPMO is supported by the federal and state surplus revolving funds. Revenues generated from the sale of surplus property are placed in the respective revolving funds. However, if at the end of the fiscal year, the state surplus revolving fund contains more than $100,000, the excess is reverted to the General Fund. No money has been reverted for the last two fiscal years.

We conducted a preliminary examination of the SPMO and were concerned about aspects of its operations.

Storage practices — Inadequate storage practices exposed equipment to dust, rain, and heat, thereby possibly reducing its usefulness and value. We visited the surplus lot and found computers, printers, copiers and other equipment stored outside, some items covered by a roof and others not.

Much of the equipment was dusty and not protected from rain or the sun. We were surprised to see equipment stored outside when the indoor warehouse was approximately two-thirds empty. When asked why electronic equipment sensitive to exposure is stored outside and not in the warehouse, SPMO personnel told us that although the equipment may have been expensive to purchase, by the time it comes to the SPMO it has little value. For example, computers become outdated, and the high repair costs for other electronic items such as phones and copiers reduce their value. They also noted that the roof over the warehouse leaks and items stored inside cannot be guaranteed protection from the rain. Nevertheless, outside storage of such equipment can damage its condition and ability to operate; thereby reducing its value to potential buyers.

Price determination — The process for determining a price for incoming property appeared to be inadequate. We observed one agency bring a load of 18 surplused items to the SPMO. After receiving and marking the items with an inventory number, the SPMO staff determined the price of each item. The SPMO staff did not check any of the equipment to determine if it worked. A price was assigned based solely on the staff's knowledge of what they thought the demand and the going rate for an item would be and that the SPMO's minimum purchase price is $20 to cover processing expenses.(1) For some of the items the staff admitted that they had no idea of its purpose — in those cases they assigned the minimum $20 purchase price. According to the SPMO staff, it would require more staff resources than they have available to do a more thorough assessment of incoming goods. Also they would prefer to underprice an item and sell it quickly rather than overprice it and have it remain on the lot taking up limited storage space.

Additional audit work is needed to determine the cost effectiveness of more thoroughly assessing incoming goods and improving storage practices.

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(1) The $20 minimum purchase price may include more than one item. Individual items could be marked less than $20 but would be grouped by SPMO staff with other items to ensure the minimum price per unit. For example, two medical tables were priced at $10 apiece, but were designated as one unit.

Fife Symington
Governor

J. Elliott Hibbs
Director

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September 19, 1994

Mr. Douglas R. Norton, Auditor General
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Mr. Norton:

The Department of Administration (DOA) thanks you for the opportunity to comment on the two performance audits of the General Services Division: Tenant Services and the Fleet Management Office (Motor Pool).

We understand the nature of the audit and concur with the general findings.

We have taken a positive and pro-active approach to the report findings. In fact, several recommendations in the report have already been acted upon, such as sharing of repair facilities across various fleets, consolidation of a Capital mall fuel site, increasing the emphasis and staffing on preventive maintenance, and increasing the effectiveness of custodial services.

We will focus our response on the primary issues highlighted within the audit report in each area:

TENANT SERVICES

- **Maintenance**

A Preventative Maintenance Program is of primary importance to the Department of Administration, Tenant Services Section. We agree with the Auditor General's Report that pilot program buildings should be identified to begin an aggressive preventative maintenance program. We also agree that implementation of the Tenant Services automated system must be operational in the very near future, and we recognize the importance of scheduling maintenance to help prevent further deterioration in the states building systems.

An aggressive equipment inventory program has been implemented in DOA managed buildings. Pertinent information is being gathered and documentated which will provide a baseline for future preventative maintenance. We concur, that a Capitol Complex wide preventative maintenance plan must be developed in order to properly utilize our assets and to meet new federal mandates that require a written program for the maintenance of building systems. This program must be preventative in scope, reflect equipment manufacturers' recommendations, describe the equipment to be maintained, and recommend maintenance procedures and frequency of performance. We are very concerned that with the planned installation of new chillers and systems controls, it will be imperative that we have a highly skilled staff to maintain and monitor this equipment. This is not only for maximum efficiency of equipment, but also for the necessary compliance with new regulations and potential indoor air quality liabilities.

The Auditor General recommended pilot program for preventative maintenance is a positive step to the management of the Capitol Complex properties in addressing the critical deterioration of our buildings; and a request to implement such a pilot has been included within the Department's fiscal year 1995/1996 Operating Budget. Additionally, we have addressed the shortage of maintenance staff by requesting four (4) additional HVAC mechanics for mandated programs and to increase the percentage of preventative maintenance accomplished.

The Auditor General's report points out that at the time the audit was conducted, there were 45 staff to provide building maintenance services. It should be noted however, that only 32 of those employees provide preventive and repair services in HVAC, pumps, roofs, generators, fire protection, electrical, etc. The other 13 employees are construction workers (responsible for tenant improvement and building renewal projects), painters, and management.

We would submit that there are three major reasons for the deficiencies noted in the audit report:

1) Lack of proper funding in the operating maintenance and building renewal budget (a 1993 Auditor General Report on Building Renewal indicated that building renewal has been under funded $30 million since 1986)
2) Lack of manpower to dedicate to an aggressive maintenance program
3) Lack of building history and actual costs to maintain each building individually.

The providing of proper funding and manpower would allow the Department of Administration to perform the services on a planned and dedicated basis, rather than on a crisis response as in the past.

The recommended pilot program would benefit budgeting, staffing requirements and building renewal cost effectiveness, as well as provide the necessary tracking to begin the process of linking building operations costs to actual rental rates. The Department of Administration agrees with the Auditor General's findings that it will take several years to gather pertinent data, however, a comprehensive work order system will be implemented within one year.

- **Custodial Services**

We concur with the audit finding that custodial services being provided have been less than outstanding. However, we disagree with the determination of causes. Further, we have been examining the privatization of custodial services for several months and while we concur that this option has considerable merit, we disagree with the Auditor General estimates of cost savings from privatization, based on the information we have accumulated to date.

The Department agrees with the assessment of needed management changes, and in fact during the last six months has selected a new General Manager for Tenant Services, two new Physical Plant Directors for Maintenance, and a new Custodial Manager. This new management team has already begun establishing appropriate staffing levels per facility, implemented quality control inspections, and established training of custodians by product vendors and equipment suppliers to educate our staff on state of the art cleaning methods and processes. By the end of fiscal year 1995, each Department of Administration managed building will have a detailed work sheet developed which will track anticipated and actual costs for custodial services.

While we agree that cost savings will be achieved by contracting out our Custodial Services, we disagree with the Audit report estimate of $700,000 annually and believe that number to be excessively high. For the past several months, the Department has been examining out sourcing custodial services, and has been reviewing this matter with both the City of Phoenix and with Service Master, a National firm specializing in custodial and maintenance services. Service Master has provided cost estimates for the Capital Mall Complex that indicate a cost savings in the vicinity of $200,000, and have informed us that the state's current cost is actually quite low for the size and make up of our facilities. Service Master does agree with the Auditor General, however, that they could do a better job than we are currently doing in this area. It appears that the major benefit of privatization may be improved service/cleanliness rather than cost as suggested by the Auditor General's report. Additionally the Department of Administration would still have to provide in-house management support to private contractors resulting in additional funding considerations. We are presently examining a pilot program to evaluate costs and quality through privatization compared to our improved state provided services.

While we concur with the audit report that there are many dissatisfied customers, we would submit that there has been recent improvements, as referenced by the January 1994 Building Services Survey that tracks levels of performance by task. In reviewing this survey, the respondents indicated an acceptable or higher level of service in trashing of 92%, in vacuuming of 57% and in dusting of 50%. Although we are still below acceptable levels of service, these indicators do not suggest a total dissatisfaction with custodial services as the audit suggests.

FLEET MANAGEMENT OFFICE

While we concur with the Auditor General's report recommendations, we would offer the following information and clarification on several of their findings:

- **The Department of Administration's Incapability to Manage A State Fleet**

The Auditor General reports that the Department of Administration is incapable of managing statewide fleet issues because the Department does not currently employ technically qualified individuals and has inadequate data processing capacity for a combined fleet of 8,000 vehicles. The Department of Administration is capable of recruiting and selecting qualified staff to manage a much larger fleet and the requisite data systems to support it if centralization of the fleet is decided.

In the past agencies have been allowed considerable latitude concerning their fleet needs. If this degree of latitude is no longer desired, as suggested by the auditor, then steps would be taken to bring these vehicles back into the Department of Administration fleet. If it is determined agencies should continue to operate separate fleets, we should legitimize their existence through formal recognition of current practice.

The report appropriately criticizes the efforts on a statewide basis being taken to prevent traffic accidents. However, a systematic process for traffic accident review, documentation and appropriate disciplinary actions is established within the Department of Administration. These processes could easily be expanded to encompass a larger fleet.

The report implies there is not a systematic way to monitor fleet usage. Again, the Department of Administration has had for many years a systematic approach and deployment for notifying fleet users of utilization information. Monthly, each agency is provided an invoice/utilization report listing, by vehicle, the number of days and miles traveled. It has been the Department of Administration's position that user management should determine how best to meet their individual travel needs in a cost effective way.

The current fleet management staff has repeatedly been instructed to meet or exceed customer needs. Arguably customer needs are not being met concerning taxi vehicles, as demand greatly exceeds current capacity. One approach is to limit certain users who appear, from an outside perspective, not to be using resources appropriately. The Department of Administration has taken the position with our users to not question their need when requesting service. It is the management responsibility of the requesting agency to ensure they are spending their budgets effectively, not a clerk within the motor pool. As stated above, usage and cost data are provided monthly to user agency management for their review and action. In light of these recent findings, additional notification to the upper Management levels within agencies under utilizing the fleet is appropriate. Also modifying the rate structure, which has not been an incentive for good agency vehicle utilization management, is being changed to discourage inappropriate use, and it is being proposed for the Fiscal 1995/1996 budget.

- **Sharing of Repair Facilities**

The Draft report speaks of little sharing of facilities across the various fleets. This issue has been recognized by both the Department of Transportation and the Department of Administration and teams have been working for more than a year to eliminate the duplication of repair, dispatch and fueling facilities within the Capitol Mall. These efforts are briefly mentioned in the auditor report. As of this date, the repair functions have been combined and agreements have been reached on co-locating dispatch and fueling activities.

The audit report suggests using a private sector vendor for lubrication service. This has been tried by the Department of Administration, and our experence with private sector preventive maintenance was that future repair needs were not discovered in a timely fashion, and the quality of maintenance was continually called into question. Fluid levels were often found to have gone unchecked, tire pressures were not routinely monitored, and overall quality was lacking. For these reasons, the current philosophy of both the Department of Transportation and the Department of Administration is that less costly and better preventive maintenance can be accomplished through in-house routine vehicle servicing.

- **Overall Report Concerning the Fleet Management Office**

The major philosophical assumption made within the Audit Report is that centralization of fleet management will be cost efficient. While we agree with most of the foundational issues (little sharing of maintenance, under utilized fuel pumps, and lack of readily accessible data), without additional information, the Department of Administration disagrees with the conclusion at this time. Time should be taken to correct the problems found by the audit team, working with those agencies currently managing separate fleets. An externally mandated centralization of services may not resolve the issues and will cause in-fighting within the major executive branch agencies.

The Auditor General's Report would lead most readers to believe the Department of Administration does not have processes in place concerning most of the issues discussed within the report. **This is not the case.** The Department of Administration has been progressive and responsive in its administration of its portion of the state vehicle fleet. The Department of Administration would be willing to share its experience and insights with other fleet administrators to ensure the state is most effectively using its resources.

Lastly, the Department of Administration is pressing forward with the process of continuous improvement. We are presently conducting analysis in the areas reviewed in this Performance Audit in an effort to better satisfy our customers.

Sincerely,

J. E. Hibbs

J. Elliott Hibbs
Director