

**STATE
EQUIPMENT
FLEET**

STATE OF ALASKA
THE LEGISLATURE

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POUCHY - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House Transportation 1/23/90

TRANSPORTATION COMMITTEE MEETING AGENDA

1) CALL MEETING TO ORDER

2) NOTE MONTH/DAY/YEAR

WEDNESDAY, JANUARY 31ST, 1990

3) NOTE TIME:

4) NOTE MEMBERS PRESENT AND EXCUSED

(For the record, note any late arrivals to the meeting)

5) REMIND PARTICIPANTS TO SIGN WITNESS REGISTER

ORDER OF BUSINESS:

Teleconferenced overview on the State Equipment Fleet. Sites on line include Anchorage, Juneau, Nome, Valdez Fairbanks and Ketchikan.

7) INTRODUCE WITNESSES

*** For the record, ask witnesses to state their name, title, mailing address and the name of the firm or agency they represent.

8) THE NEXT COMMITTEE MEETING IS SCHEDULED:

Tomorrow, Thursday, February 1st at 8.15 a.m. This meeting will be a teleconference with the Alaska Trucking Association.

state equipment fleet.

9) ANNOUNCE TIME OF ADJOURNMENT

Plan DOT STAFF overview/Parish concerns of those in Tele. The chair will enter notes indiv MBS of comm. Hearing to AT. Keep notes

RUBINO SAME Snow Schrade

Holloway
Centra - Fleet 7000
65% pop in Centra
66% vehicle miles Centra
All equip leads
All ARES + PETS in Centra
Req

100 mill fleet
wet Rembr
1000 items

cost to move?
12 Feb JUN who?
2 ACCTG
3 DATA ANALY
1 SECURITY
1 Procure-Bids

MBS Parker
1 equip covered - Reviews
1 equip body - lens -
1 " " Anc lens spec wear
SAHLBERG equip
Cent + North - B16 concert
No ammo
DOT ADMIN + DOT OR
No protests
BIDS BID
JUNEAU BASSLET

JONES ACT
extemp ships IN of Yukon

*
* DELIVER TO: LIOCROD
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*
* ORIGINAL
* SENT: 01/31/90 TIME: 08:18
* FROM: LIOCINE
* SUBJECT: • 90-01-147; PL; EQUIPMENT; 1-31
* PRINT DATE: 01/31/90 TIME: 08:18
*

TXC NO: 90-01-147

DATE: JANUARY 31, 1990
SPONSOR: HOUSE TRANSPORTATION
SUBJECT: STATE EQUIPMENT FLEET
MODERATOR: INEZ WEBB
SITE: ANCHORAGE

PARTICIPANT LIST

TO TESTIFY:

1. LOUIS P. RUBINO, HOWARD COOPER CORP.
- ② CHARLES PARKER, SAHLBERG EQUIPMENT
- *③ MORRY HOLLOWELL, YUKON EQUIPMENT
4. GARY SCHADE, ALASKA TRUCK CENTER
- 5.
- 6.

TO OBSERVE:

1. JOHN BUCK, ALASKA SALES AND SERVICE
- 2.

BACKUP NUMBER - 561-1199
EMAIL ADDRESS - LIOCINE

*
* DELIVER TO: LIOCROD
*
*
* ORIGINAL
* SENT: 01/31/90 TIME: 08:34
* FROM: LIOCINE
* SUBJECT: 90-01-147;FL#2;EQUIPMENT;1-31
* PRINT DATE: 01/31/90 TIME: 08:35
*

T\C NO: 90-01-147

DATE: JANUARY 31, 1990
SPONSOR: HOUSE TRANSPORTATION
SUBJECT: STATE EQUIPMENT FLEET
MODERATOR: INEZ WEBB
SITE: ANCHORAGE

PARTICIPANT LIST

TO TESTIFY:

1. LOUIS F. RUBINO, HOWARD COOPER CORP.
2. CHARLES PARKER, SAHLBERG EQUIPMENT
3. MORRY HOLLOWELL, YUKON EQUIPMENT
- 4. GARY SCHADE, ALASKA TRUCK CENTER

TO OBSERVE:

1. JOHN BUCK, ALASKA SALES AND SERVICE
2. DON REDMOND, DJ'S ALASKA RENTALS, INC.
3. WARREN POLSKY, FREIGHT LINER ALASKA
- ④ 4. JOHN SNOW, CRAIG TAYLOR EQUIPMENT

BACKUP NUMBER - 561-1199
EMAIL ADDRESS - LIOCINE

 *
 * DELIVER TO: LIOCROD
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 *
 * ORIGINAL
 * SENT: 01/31/90 TIME: 08:46
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 * SUBJECT: 90-01-147; PL#2; EQUIPFLEET; 1-31
 * PRINT DATE: 01/31/90 TIME: 08:46
 *

T/C NO: 90-01-147
 DATE: JANUARY 31, 1990
 SPONSOR: HOUSE TRANSPORTATION COMMITTEE
 SUBJECT: STATE EQUIPMENT FLEET
 MODERATOR: BECKA BAKER
 SITE: NOME

PARTICIPANT LIST

 TESTIFIED

NAME/REPRESENTING	ADDRESS
1.	
2.	
3.	
4.	
5.	

 OBSERVED

NAME/REPRESENTING	ADDRESS
1. LARRY LABELLE/REPRESENTATIVE FOSTER'S OFFICE	
2. FRANK RICHARDSON/DEPT. OF TRANSPORTATION	
3.	
4.	
5.	

TESTIFIED:
 UNABLE:
 OBSERVED:
 TOTAL:

START TIME: END TIME:

 *
 * DELIVER TO: LIOCROD
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 *
 * ORIGINAL
 * SENT: 01/31/90 TIME: 08:27
 * FROM: LTCKTN
 * SUBJECT: (H) TRANS; PL1; EQUIPMENT; 1-31
 * PRINT DATE: 01/31/90 TIME: 08:27
 *

T/C NO: 90-01-147

DATE: JANUARY 31, 1990
 SPONSOR: HOUSE TRANSPORTATION COMMITTEE
 SUBJECT: STATE EQUIPMENT FLEET
 MODERATOR: JUNE ROBBINS
 SITE: KETCHIKAN

PARTICIPANT LIST

 TESTIFIED

NAME/REPRESENTING	ADDRESS
1.	
2.	

 OBSERVED

NAME/REPRESENTING	ADDRESS
1. STEVEN A. KNUTSON, ADPS	BOX 8700, KETCHIKAN, AK 9990
2. CHRISTOPHER S. RANKIN, ADPS	BOX 8700, KETCHIKAN, AK 9990

TESTIFIED:
 UNABLE:
 OBSERVED:
 TOTAL:

START TIME:

END TIME:



Representative Bette Cato, Chair House Transportation Committee

SUBJECT OF MEETING:

DATE:

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
KEN LANGEL	SEF DOT			465 - 2086		<input checked="" type="radio"/> Y	N
Bob Bartholomew	DOT/PF			465 - 3911		<input checked="" type="radio"/> Y	N SEF
Mark Hickey						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N
						Y	N

DOT/PF STATEWIDE EQUIPMENT FLEET
SEF RELOCATION ISSUE

The location of the Headquarters SEF unit (12 employees) has been an issue for a number of years and continues to be as shown by the recently submitted petition from Anchorage vendors.

DOT/PF continues to review the issues related to the location of SEF. DOT's position remains that the most efficient and effective way to serve all equipment needs is for SEF HQ to remain in Juneau. This position has been supported by both a recent Legislative Audit and an interagency task force report on the State Equipment Fleet.

A fresh examination of this issue has not revealed compelling reasons for a move. We fail to understand just what is it the vendor community would gain from SEF being in Anchorage versus Juneau. What is the benefit? Is there a benefit that will result in lower bid prices? Or in reduced costs? Some of the issues relative to a SEF Relocation, including those in the petition, are addressed below.

ISSUES

1. Communication.

The vendors state in their petition that one of the problems is ineffective user and constituent communications. SEF has taken the following proactive measures in the last year to minimize communication problems. These measures have also reduced costs of doing business with the state for the vendors.

- o Established a toll free number for vendor calls to Juneau from both Anchorage and Fairbanks.
- o Assigned a full time Equipment Operations Analyst to Anchorage so vendors can have face-to-face contact with the person responsible for developing specifications.
- o Began conducting Presolicitation Workshops in Anchorage. This is an informal workshop where vendors, users, and SEF personnel jointly review specifications before going to bid.
- o All Prebid Meetings and Bid Openings are held in Anchorage.
- o SEF maintains FAX capability.
- o Specifications can be transferred via modem from Juneau computers to Anchorage specification writer's computer.
- o Rewrote the entire bid package, using vendor suggestions to make it clearer and easier to use.

2. Cost. This is a legitimate issue to review. Performing the Fleet's business is going to cost something regardless of where it is. Our initial reviews show that the cost of having the Procurement Officer go to Anchorage for bid openings,

etc., is not substantial. See the attachment which shows these costs for the first 9 months of 1989.

It would seem that any savings in this area of travel would be offset by the increased trips that other SEF staff would need to make from Anchorage to Juneau. When the cost of relocation is taken into consideration it would appear that no significant cost benefit would be gained by relocation.

3. Centralized Management.

SEF is a headquarters function and needs to be in the same location as the headquarters for DOT and the majority of other agencies. Our functions require close interaction with other Juneau based entities including OMB and the Legislature. Addition of the Fleet Manager has mitigated former concerns in this area.

The SEF is responsible for a great deal in addition to buying replacement equipment. Coordination of these other activities with fleet users around the state will require travel whether stationed out of Anchorage or Juneau. I.e, you've still got to go to Ketchikan/Sitka, Nome, Fairbanks, etc. in order to be effective in providing fleet services to those areas. There would not be a substantial difference in these costs due to relocation of SEF Headquarters.

4. Equipment Replacement. The petition references a loss of productivity due to untimely equipment replacement. This has nothing to do with location. The new SEF organization has already replaced more equipment (i.e., put out more bid lots) than in any year since 1985. Technical aspects of equipment replacement are not at a disadvantage by being in Juneau because most technical information comes from manufacturers.
5. Procurement Practices. The petition alleges questionable procurement and award practices which continue to grow at an alarming rate. Recently conducted audits and hearing officers rulings do not support this allegation and it is not clear how these practices would be affected by moving them to a different location.

SEF PROCUREMENT OFFICER TRAVEL HISTORY 1989

DATE	ACTIVITY	BID# & ITEM	COST TRAVEL/PER DIEM
01-20-89	Pre-Bid	044 Bush Graders	\$ 531.00
"	"	050 Police Vehicles	

02-07-89	Open	050 Police Vehicles	766.00
	(02-08-89 Trip included 2-day Regional Equip. Mgr. Meeting)		

02-17-89	Pre-Bid	046 Passenger Cars & S/W	531.00
"	"	047 Vans & Utility S/W	
"	"	048 Trucks, 1/2 & 3/4 ton	
"	"	049 Trucks, 3/4 & 1 ton	

02-21-89	Open	044 Bush Graders	486.00

03-06-89	Open	046 Passenger cars & S/W	531.00
"	"	047 Vans & Utility S/W	
"	"	048 Trucks, 1/2 & 3/4 ton	
"	"	049 Trucks, 3/4 & 1 ton	

06-08-89	Open	051 Hitches and Plows	506.00

07-18-89	Open	060 Used Belly Dumps	408.00

08-14-89	Pre-Bid	056 Water Tankers	516.05
"	"	061 Buses	
"	"	065 Governor's Car Lease	
08-15-89	Pre-Bid	054 Jet Runway Brooms	

08-30-89	Open	054 Jet Runway Brooms	465.00
"	"	056 Water Tankers	
"	"	061 Buses	
"	"	065 Governor's Car Lease	

09-05-89	Pre-Bid	055 Wheel Loaders	766.00
09-06-89	(Conducted other state business in Anchorage)		
09-07-89	Open	062 Engines	
"	"	064 Forklift	

09-19-89	Open	057 Air Compressor	526.00
"	"	059 Broom Core & PS Reducer	
"	"	055 Wheel Loader	

09-27-89	Open	064 Forklift	533.50
"	Pre-Bid	058 Snowplow Truck	
=====			

12 Trips - January-September = 9 months = 1.33 trips/month

Total Cost = \$6,565.55 = Average Monthly Cost of \$729.51
Average Trip Cost \$547.13

STATE OF ALASKA

Department of Transportation and
Public Facilities



Statewide Equipment Fleet

P.O. Box 7, MS 2501

Juneau, Alaska 99801

(907) 457-7080

**INTRODUCTION TO STATE EQUIPMENT
FLEET (SEF) AND OVERVIEW OF
FLEET MANAGEMENT CONCEPTS**

PREPARED BY:

**SEF HEADQUARTERS STAFF
DECEMBER 14, 1989**

STATE EQUIPMENT FLEET (SEF) ORIENTATION

SEF OVERVIEW

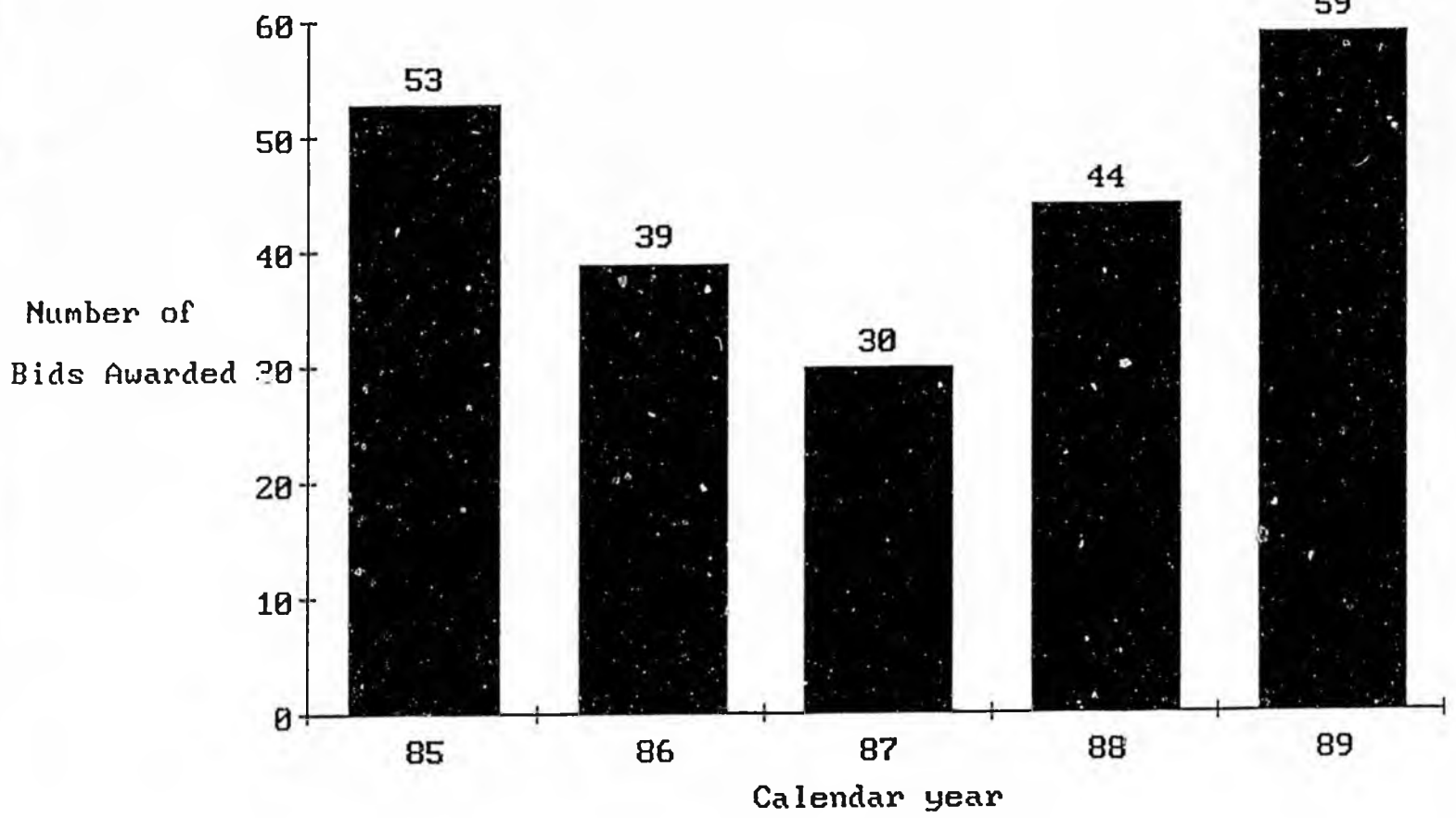
SEF is responsible for overall management of the state's vehicle and equipment resources.

SEF is a service organization providing equipment support services to all state agencies.

Support services are provided in the following functional areas:

- Overall Policy and Procedures for Fleet Management
 - Carry out statutory mandates
 - Provide central oversight to Statewide Equipment Fleet
- Financial Management of Highway Equipment Working Capital Fund
 - Customer billing
 - Accounts Payable
 - Fuel credit cards
- Provide Data and Management Analysis to Regional SEF Shops and to Users
- Provide and Maintain a Statewide Computerized Equipment Management System (EMS)
 - Parts inventory management
 - Fuel management
 - Maintenance data and cost analysis
 - Utilization data and analysis
- Equipment Related Procurement Services
 - Managing Equipment Replacement Program
 - Purchasing equipment and major parts
 - Leasing
 - Equipment Surplus

Bids Awarded



STATE EQUIPMENT FLEET (SEF) ORIENTATION

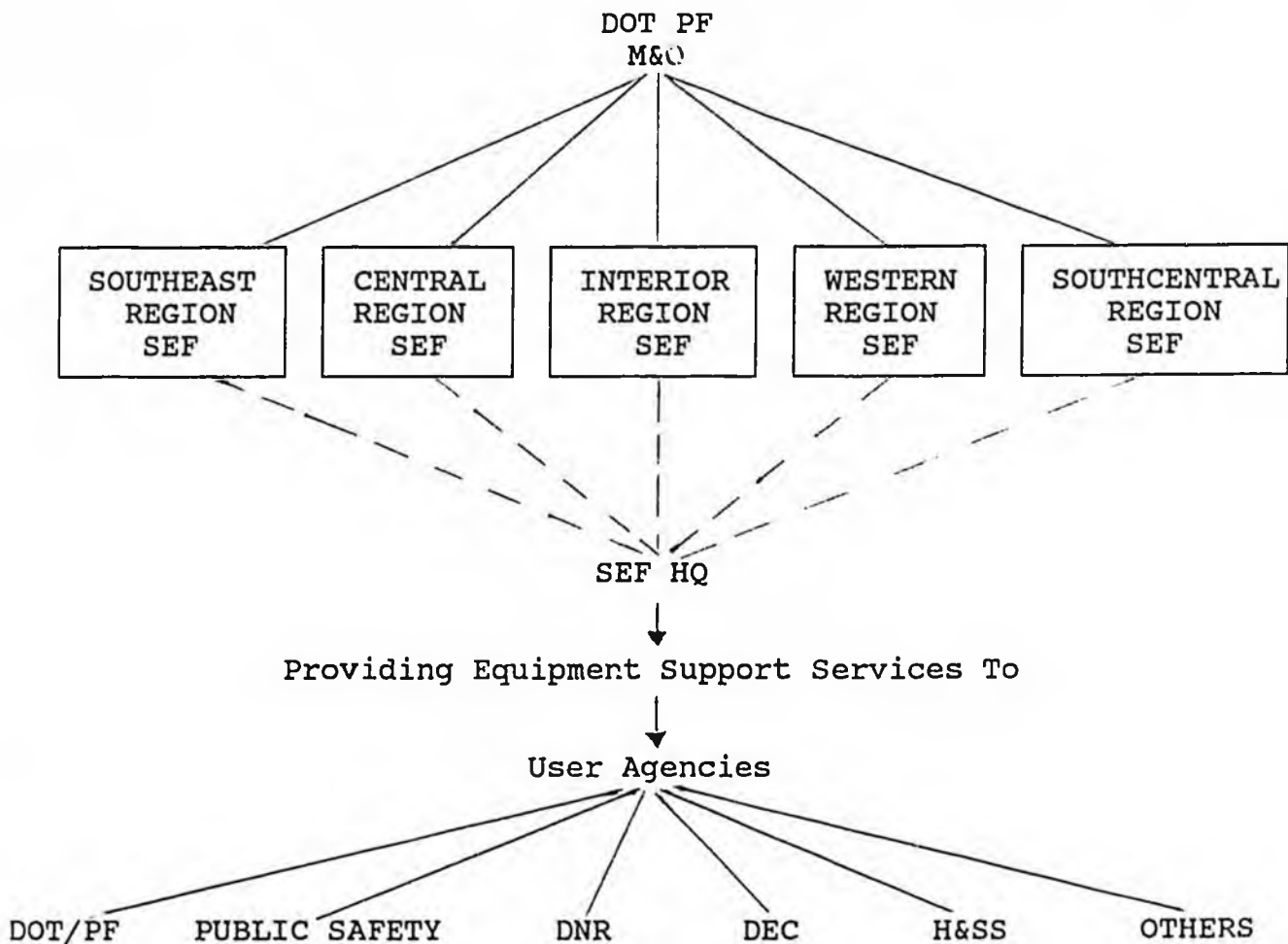
ORGANIZATION

SEF is a division of the Department of Transportation and Public Facilities assigned to DOT/PF Headquarters in Juneau. SEF reports to the Director of Management & Finance.

The SEF Headquarters unit has a staff of 12, all located in Juneau except for one Equipment Operations Analyst who is in Anchorage.

Functionally, SEF HQ provides oversight of the statewide equipment fleet and management support to five regional SEF shops and to all equipment user groups. SEF does not provide day-to-day supervision of regional shops. They report directly to their area's M&O supervisor(s) for day-to-day matters, and to SEF HQ for overall fleet policy and procedures.

The relationship between SEF HQ, regional shops, and user groups is shown in the following diagram.



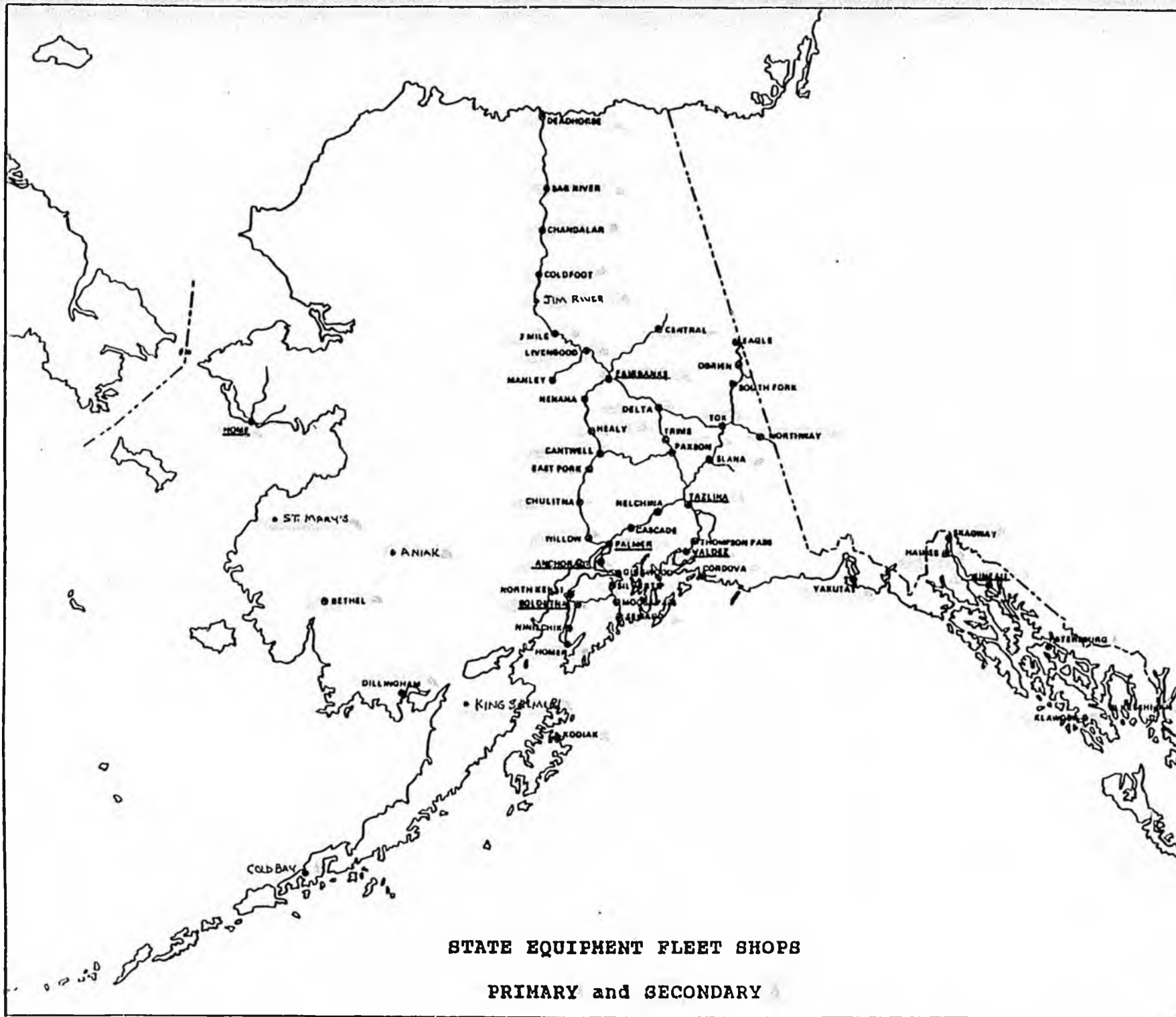


FIGURE A

FIGURE A

**STATEWIDE EQUIPMENT FLEET (SEF)
HEADQUARTERS STAFF - JUNEAU
TELEPHONE 465-2086**

**Ken Langel, Statewide Fleet Manager
Jess Bulkley, Procurement Officer
Bob Cramer, Equipment Coordinator
Steve Sims, Equipment Analyst
Barbara Bowns, Management Analyst
Cathy August-Miller, Accountant**

**Daryl Methvin, Equipment Analyst (Specifications)
SEF Anchorage - 269-5614**

INFORMATION NEEDED

PERSON TO CONTACT

**Replacement of Equipment
Status of New Equipment Delivery**

**Bob Cramer
" "**

Equipment Specifications

Daryl Methvin

**Heavy Parts Buying
Vehicle Leasing**

**Steve Sims
" "**

**Equipment Rates, Computer
Reports, Computer System
Questions, Data Analysis**

Barbara Bowns

Bids for New Equipment

Jess Bulkley

Billing Information

Cathy August-Miller

**General Fleet Information,
Problems, Complaints**

Ken Langel

STATE EQUIPMENT FLEET
FLEET SIZE AND COMPOSITION

Light Vehicles	3504
Trailers	630
Heavy Trucks	387
Heavy Equipment	894
Graders	300
Loaders	195
Dozers	127
Snowblowers	77
Misc.	195
 TOTAL VEH/EQUIP	 5415

In addition to the above listed items the fleet maintains over 1200 pieces of nonrolling stock. This includes such items as snowplows, mounted welders, boilers, brushcutters, and other accessories or attachments to equipment.

The fleet provides three individual levels of support for state equipment.

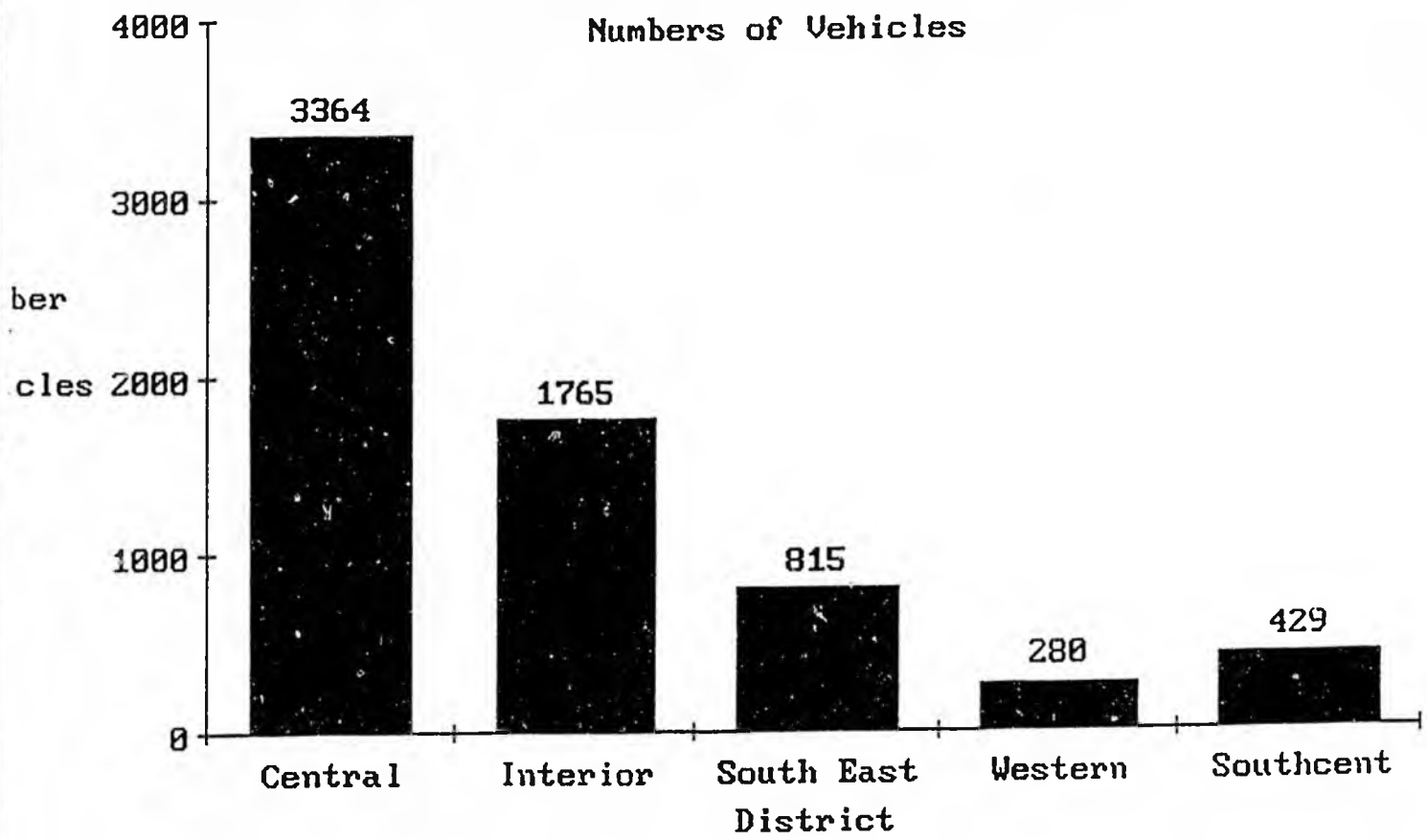
Wet Rental = For those vehicles/equipment which are on the road network or accessible to fleet service shops, fuel, repair, maintenance, and replacement are provided.

Dry Rental = Off the road network, replacement of vehicles only (note; fuel, repair provided upon request as available).

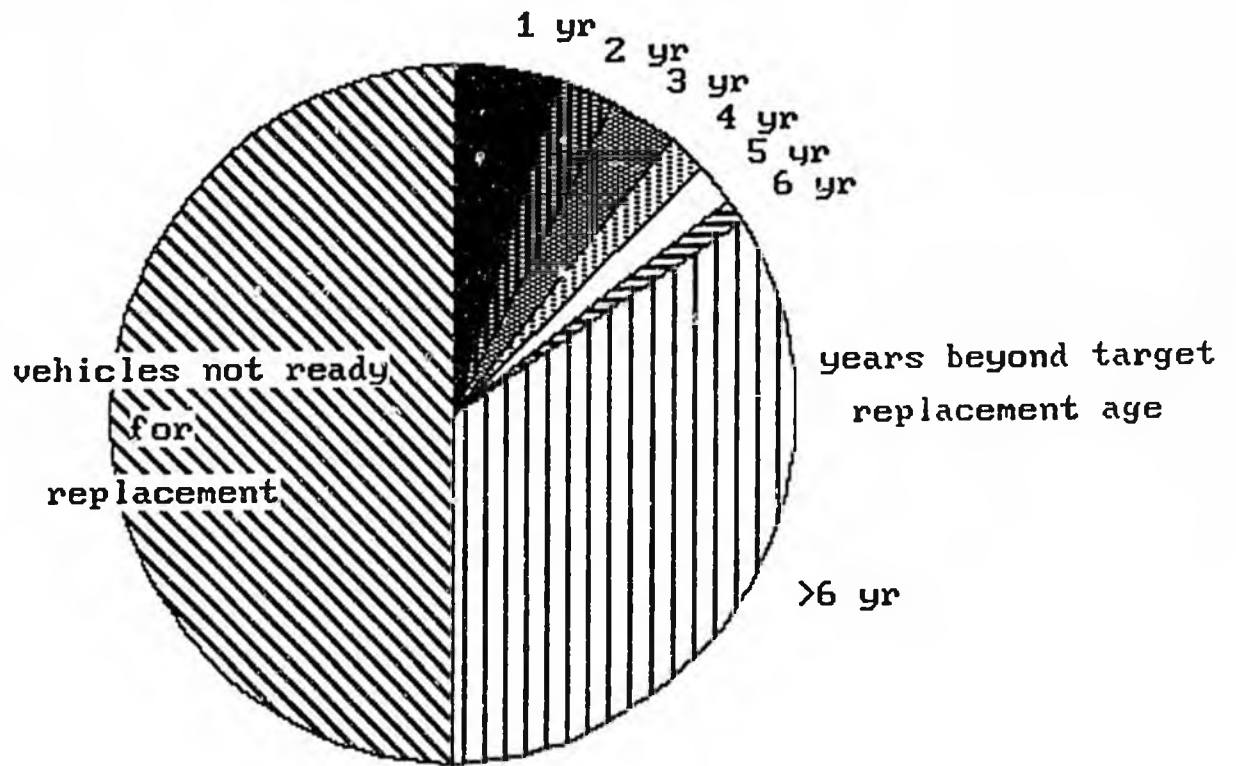
Non Rental = Agency owned vehicles, inventory and record keeping only. (note; fuel, repair will be provided to the user upon request when available and at cost) Non rental vehicles include; leased cars, donated vehicles from the federal government, university vehicles, etc.

The fleet composition is wet rental 63%
dry rental 04%
non rental 33%

FLEET DISTRIBUTION by District
Numbers of Vehicles



Percent of Fleet Exceeding Target Replacement Age



STATE EQUIPMENT FLEET ORIENTATION

HIGHWAY EQUIPMENT WORKING CAPITAL FUND (HEWCF)

FINANCIAL INFORMATION

STATUTORY AUTHORITY: AS 44.74.010 - .050 establishes the HEWCF and designates the fund to receive revenue from equipment rental and expend these monies for a centralized equipment fleet.

OVERVIEW OF FUND ACTIVITY AND BUDGET PROCESS:

The HEWCF is a separate fund which receives revenue from each user of SEF equipment. User agencies receive an annual appropriation for the equipment operating and replacement fees charged by SEF from the General Fund.

HEWCF funds are used for replacement of equipment, for operating and maintenance costs for all wet rental equipment and to support SEF Headquarters.

HEWCF REVENUE:

1. Operating Revenue- Revenue received from monthly billings to users for operating rates. These rates are designed to recover labor, parts and other repair costs as well as fuel costs for wet rental vehicles.

2. Replacement Revenue- The revenue received for the eventual replacement of a vehicle. A monthly fee is charged based on the acquisition cost less salvage value divided by the useful life of the vehicle.

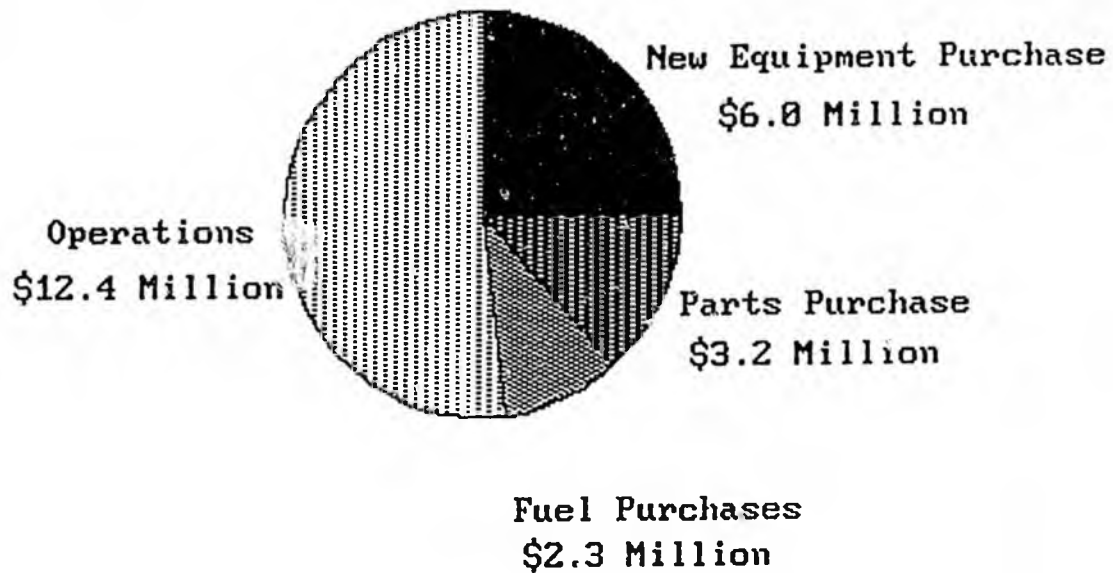
CURRENT VALUE OF EQUIPMENT: \$95,000,000

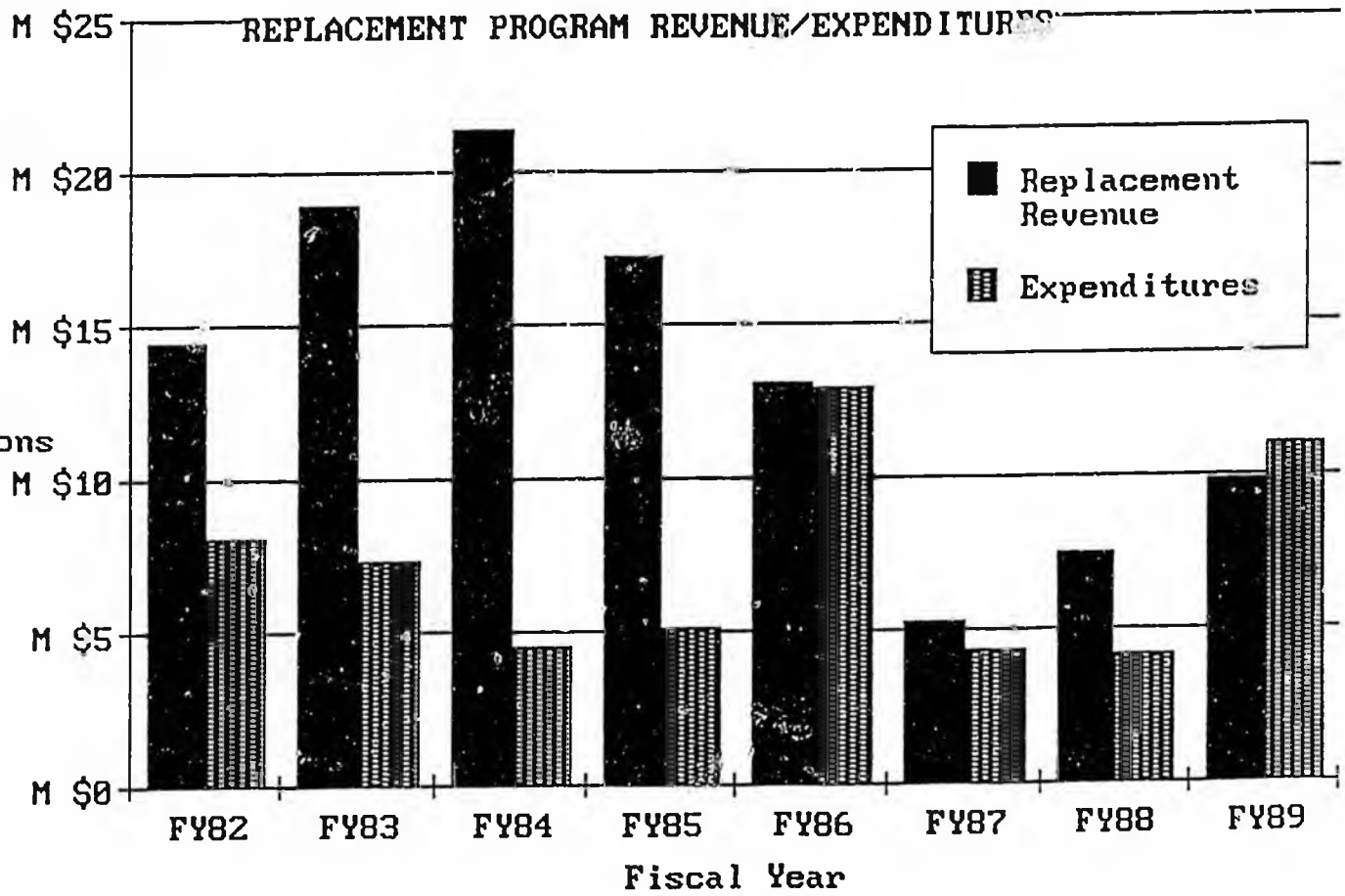
ANNUAL OPERATIONS BUDGET:	ANNUAL REPLACEMENT BUDGET:
REVENUE: \$16 to \$17 M	REVENUE: \$9.5 TO \$10.5 M
EXPENDITURES: \$19 to \$20 M	EXPENDITURES: \$7 TO \$10M

SUMMARY: Operating and replacement rates have not been sufficient to cover actual expenditures since FY 1985. This was the result of legislative budget cuts. Replacement of equipment has been postponed in order to live within actual revenue.

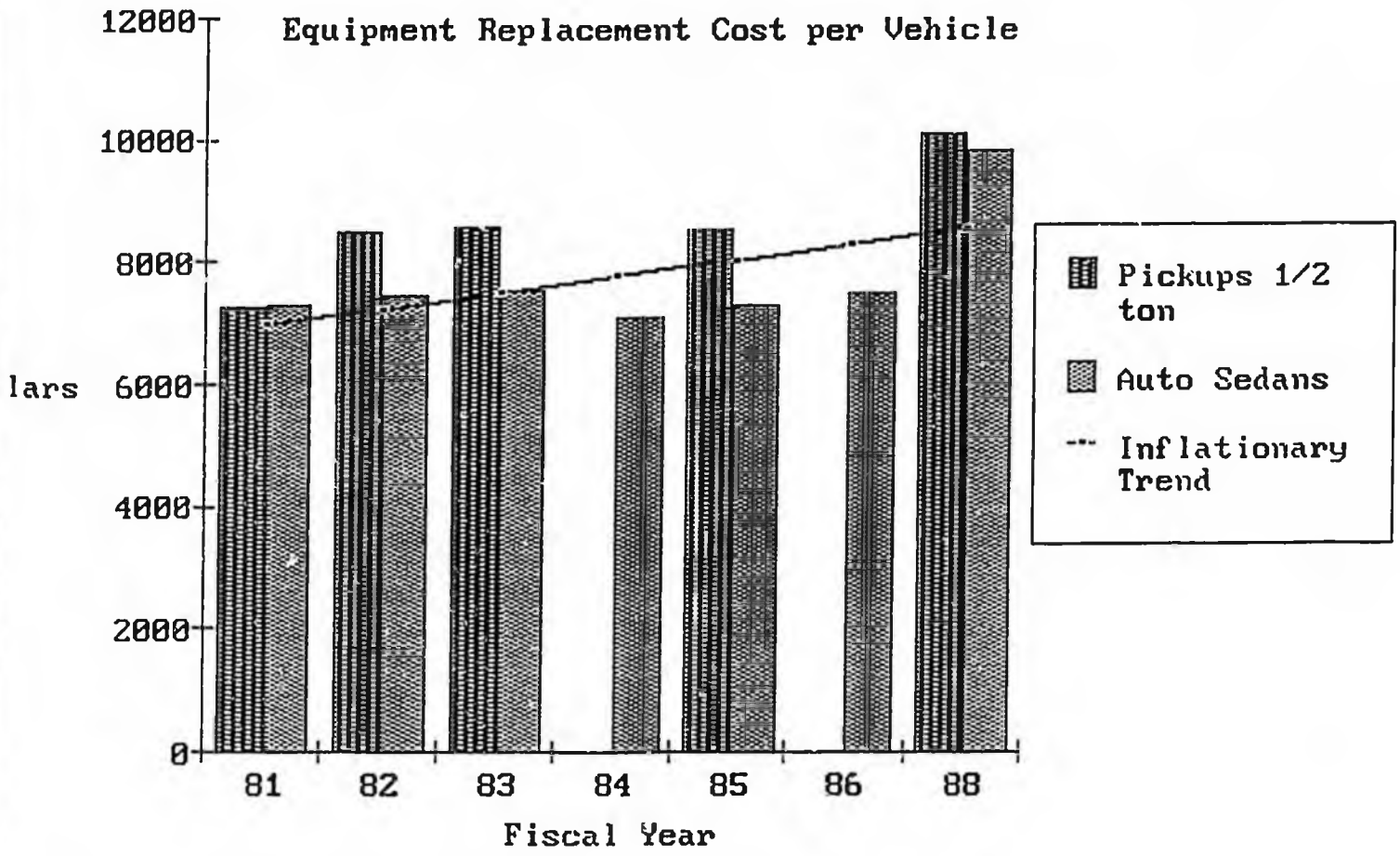
In addition to budget cuts, \$62.7 million of HEWCF reserve funds were reappropriated back to the General Fund.

Fiscal Year 1989 Expenditures
Total \$23.9 Million





Equipment Replacement Cost per Vehicle



FUNDAMENTAL FLEET MANAGEMENT CONCEPTS

Fleet management is generally divided into two broad areas:

Asset Management

General management of the Fleet's resources
(What to buy, when to buy, how much to own, how to distribute resources, etc.)

Maintenance Management

Specific management of the facilities, personnel, and techniques of maintaining (service, repair, and overhaul) these resources.

Goals of Fleet Management

1) To provide equipment resources to users at the lowest possible cost, and 2) To optimize the return on investment in equipment by getting the most use for the least cost.

Optimization of Fleet Resources can only be accomplished by managing the resource throughout its life cycle.

Equipment Life Cycle

Sometimes referred to as "cradle to grave equipment management", the life cycle contains three distinct phases which need to be optimized through good management.

Phase 1. Birth: The original purchase. What equipment is purchased and how it is purchased will affect costs for its entire life.

Phase 2. Life: Called the equipment's economic life, the operation and maintenance of equipment throughout its life. How much it does and how long it lives for what maintenance cost affects total life cost.

Phase 3. Death: Final disposal. Once it is no longer economical to operate and maintain a unit, it should be disposed of. How this phase is managed affects the total life cost.

Only when all three of these phases are integrated and managed together, will return on investment be optimized.

Equipment Fleet Organization

Administrative

Some form of centralized fleet management is almost always used to achieve optimization of fleet resources.

This is simply a function of the economy of scale that is possible in areas of purchasing, repair part standardization, computer resources, standardization of maintenance, and flexibility of shifting resources. This economy of scale also allows for professional management of fleet resources at a level not possible in smaller groupings.

Economic

Experience has shown that most fleets operate at lower cost when a single agency owns the equipment and charges users a rental fee. Rates are established to recover the cost for the unit's eventual replacement.

Equipment is usually rented to customers in one of three ways:

1. Full Support, sometimes called wet rental, where the equipment company provides maintenance and fuel. Sometimes maintenance is provided without fuel.
2. Limited Support, sometimes called dry rental, where equipment is provided with major maintenance only. Daily maintenance, service, and fuel are provided by the customer.
3. Non Support. The customer pays a rental fee which represents replacement costs only. The customer provides all fuel, service, and minor as well as major repairs.

Equipment rates can be based on a combination of factors, including hours, miles, a flat rate per day, per week, or per month.

Most companies with central fleets base equipment rental on a fixed rate per month or at least a minimum rate per month per unit. This simplifies accounting, reduces administrative cost, and creates an incentive for the customer to not check out any more equipment than is needed to get the job done.

Basic Areas of Focus for Fleet Management

- Equipment Procurement. Buying the right equipment for the job, balancing quality with cost.
- Equipment Utilization. Companies don't want to spend money for equipment that isn't going to be used. Short-term needs can often be better met through renting or leasing. Most companies require a minimum annual utilization on equipment to justify ownership.
- Equipment Maintenance. A good preventive maintenance program is essential for all units. A well managed overhaul and rebuild program is usually found in fleets with heavy equipment and large trucks.
- Control of Damage and Abuse. Equipment costs will soar and life be shortened if unnecessary abuse and damage is tolerated. Most companies have policies that require users to pay for damage caused by abuse.
- Parts Inventory Management. Repair parts inventories for large fleets can run in the millions of dollars. Attention must be given to ensure these inventories are managed properly.
- Data Analysis. Making the correct decisions about equipment requires certain data about its use, cost of repairs, etc. For large fleets, this represents a large volume of data. It can only be managed effectively with a computerized system.
- Equipment Downtime. Equipment can't perform its function when down for any reason. Fleets must manage this parameter.

Other Areas of Fleet Management

- Warranty Recovery
- Failure Analysis
- Training
- Quality Control
- Fleet Standardization
- Equipment Specifications
- Equipment Surplus
- Safety
- Manpower Productivity
- Equipment Productivity

CONFIDENTIAL

A SPECIAL REPORT ON THE
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES
STATE EQUIPMENT FLEET
PROCUREMENT POLICIES AND PRACTICES

July 1, 1987 - August 15, 1989

Audit Control Number

25-4347-90-S

FINAL REPORT

Commissioner, Department of
Transportation and Public
Facilities

Mark S. Hickey

Deputy Commissioners,
Department of Transportation
and Public Facilities

D. Randy Simmons
W. Keith Gerken

STATE OF ALASKA

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

October 18, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A SPECIAL REPORT ON THE
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES
STATE EQUIPMENT FLEET
PROCUREMENT POLICIES AND PRACTICES

July, 1987 - August 15, 1989

Audit Control Number

25-4347-90-S

As stated in the Report Objectives, Scope, and Methodology section, the audit primarily involved a review of state equipment fleet bids and contract awards. Special attention was given to those bids which have been protested and the reasons for the bid protests.

The audit was conducted in accordance with generally accepted governmental performance auditing standards.



Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee request and the provisions of Title 24 of the Alaska Statutes, a review was performed of the Department of Transportation and Public Facilities (DOTPF), State Equipment Fleet's (SEF) procurement policies and practices. The objectives, scope, and methodology of our review were as follow:

Objectives

The objectives of our review were to:

1. Identify the total number of equipment contracts entered into between July 1, 1987 and August 15, 1989;
2. Determine which of the invitations to bid or contract awards had been protested and for what reasons; and,
3. Analyze the award process for compliance with the State's procurement code (AS 36.30).

Scope and Methodology

The scope of our review included all invitations to bid issued in FY 88, FY 89, and the first six weeks of FY 90. Bid files maintained in the SEF offices were examined to determine compliance with the procurement code and to gather information on protest/appeals.

Members of the vendor community, SEF user agencies, and SEF staff were contacted for information about SEF procurement practices followed during our review period.

ORGANIZATION AND FUNCTION

The Department of Transportation and Public Facilities (DOTPF), under AS 44.42.020(11), is empowered to "supervise and maintain all state automotive and mechanical equipment, aircraft, and vessels, . . .". DOTPF has delegated these duties to the State Equipment Fleet (SEF).

SEF is divided into two parts to carry out its responsibilities: headquarters staff and regional maintenance staff. The headquarters staff performs the financial operations for the fleet; the regional maintenance staff fulfills the operational functions.

SEF Headquarters has a thirteen member staff including a manager, contract officer, and three equipment operations analysts. One equipment operations analyst position is located in Anchorage; the rest are in Juneau. The manager reports to the Director of the Division of Management and Finance who is responsible to the Deputy Commissioner of Budget and Finance.

SEF Headquarters functions are administrative and financial. They include management of the Highway Equipment Working Capital Fund, developing rates for the operation and replacement of equipment, billing and collecting revenue, issuing statewide policy and procedures for the fleet, preparing budgets, and managing the statewide equipment program. Management of the equipment program consists of procurement (bid specification writing, proposal evaluation, and contract award) and scheduling equipment replacement.

The other section of SEF is the maintenance staff which is part of the Division of Maintenance and Operations (M&O) in each region. Their duties include providing preventative, routine, and major maintenance for all state equipment and the assignment of vehicles according to SEF Headquarters guidelines. The regional staffs report through the M&O directors in their respective areas and the regional directors to the Deputy Commissioner of Operations.

The two Deputy Commissioners account directly to the DOTPF Commissioner.

This audit is concerned primarily with State Equipment Fleet Headquarters and the equipment procurement function.

REPORT CONCLUSION

Between the time that the Department of Transportation and Public Facilities (DOTPF) was first delegated the purchasing authority for the State Equipment Fleet (SEF) by the Commissioner of Administration in June 1986 and the completion of SEF reorganization in February 1989, there was a distinct lack of management over fleet operations. This was especially true for procurement operations as evidenced by the number of protests and appeals filed by the vendors.

In our review of the contracts awarded during the time period July 1, 1987 through August 15, 1989, we determined that one hundred seventeen "bids" were requested for proposals on equipment items. A "bid," as used here, counts each individual lot listed in an invitation to bid as one bid. Of the total number of items, twenty-two protests of the bid awards (19%) were filed with the procurement officer. Ten of the twenty-two decisions made on the protests were further appealed to the DOTPF Commissioner. Appendix A shows these statistics in more detail.

Filing a protest is the first step in obtaining a legal remedy as provided by AS 36.30. A protest may be filed with the procurement officer of the contracting agency against the "award of a contract, the proposed award of a contract, or a solicitation for supplies, services, professional services, or construction." The procurement officer has fourteen days to issue a decision on the protest. The protestor may appeal that decision to the Commissioner. The Commissioner may dismiss the protest appeal without a hearing, issue a decision without a hearing or provide for a hearing of the protest appeal. The Commissioner may act as the hearing officer or appoint someone to act for him. The hearing officer recommends a decision to the Commissioner who in turn makes the final decision on the protest appeal. The last step may be an appeal of the Commissioner's decision to the Alaska superior court.

The protests received by SEF were focused on issues relating to the bid specifications and whether or not deviations from those specifications were material. Protestors alleged that low bids were either unresponsive or prototypes (forerunners of a model line, non-production models) or that rejected bids contained only minor deviations which should have been acceptable. Recommendations have been made calling for improvement in the specification writing process, for the development of specific procedures for establishing product equivalents, and for the consistent application of guidelines for the determination of material deviation from the bid specifications. Appendix B details information on the protested bids.

Between July 1987 and August 1989, twenty (20) bids were cancelled. Cancellations are very costly not only for the vendors but also for the users and the state equipment fleet itself. "Inadequate specifications" in the invitation to bid was the reason for thirteen (65%) of the cancellations. Two bids (10%) were cancelled as the result of changes in user needs and the entire invitation to bid had to be rewritten. Clarification of the bid specifications and the implementation of a new policy requiring users to approve the specifications before the invitation to bid is issued should help decrease the number of bid cancellations. Appendix C identifies the cancelled bids and the justification for their cancellation.

For almost two years after the SEF procurement function was delegated to the Department of Transportation and Public Facilities, there was no one in a management position overseeing fleet operations. DOTPF's decision in the fall of 1988 to reorganize SEF was a positive step. The reorganization of the fleet, including the hiring of a manager, should improve the effectiveness and efficiency of its operations.

Our review of the invitations to bid and procedures leading to the subsequent contract awards indicated that the State Equipment Fleet is in compliance with the provisions of Alaska Statute 36.30, the State's procurement code.

AUDITOR'S COMMENTS

The equipment procurement function for the State Equipment Fleet (SEF) was delegated to the Department of Transportation and Public Facilities (DOTPF) by the Commissioner of the Department of Administration (DOA) in June 1986. This authorization was given in anticipation of changes to be made by new procurement statute, AS 36.30 which was effective January 1, 1988. Prior to this delegation, the Department of Administration, Division of General Services & Supply, was responsible for SEF procurement. SEF developed the bid specifications for its desired purchases and DOA issued the invitations to bid, received the proposals, conferred with SEF regarding the bid evaluations, made the bid awards, and responded to protests and appeals. SEF now performs the entire process.

After SEF received the delegation of purchasing authority for state equipment purchases, the contract officer assumed the responsibility for the whole procurement function. Serious management problems began to surface and a series of studies and reports were published regarding SEF organization and management procedures.

The first of the studies was the Office of Management and Budget's (OMB) "Audit of State Equipment Fleet Management Procedures" in November 1987. The OMB audit recommended that:

1. DOTPF should assume a larger management role over equipment purchased and operated with state general funds;
2. The Highway Equipment Working Capital Fund (HEWCF) should be placed on a sounder financial base; and,
3. Existing policies should be followed by the department.

The audit was followed by a multi-agency task force study of the "State Equipment Fleet." While that report has yet to be released final, some draft copies have been distributed. Areas of concern addressed by the task force included HEWCF rates, billing process, and cash flow system, SEF equipment replacement policies, organizational structure, and the establishment of a better communications network between SEF and its users.

The final review was an in-house study released in September 1988 which recommended reorganization of SEF Headquarters, including the upgrade of positions to establish a manager, management analyst, equipment operations analyst, and accounting staff. All three reviews concluded that the

State Equipment Fleet needed "strong administrative, financial, and technical guidance" in order to improve its efficiency and effectiveness.

As a result of the studies, DOTPF reorganized SEF and hired a manager. The reorganization was completed in February 1989 with the hire of the new manager. Since that time the manager has reviewed SEF's past performance and problems and started to implement changes necessary to improve headquarters operations. Improvements to the procurement function include the publishing of a new bid package, a quarterly newsletter from SEF Headquarters to the vendors outlining future planned acquisitions, and the establishment of the equipment operations analyst/specification writer position in Anchorage. Toll free phone and fax lines have been set up in Anchorage and Fairbanks allowing easy access to SEF in Juneau.

Many of the vendors' complaints about SEF operations were based on decisions made by the previous contract officers. Until recently, no new invitations to bid for equipment had been distributed. Vendors are waiting to see how the "new regime" operates before they are willing to confirm that things are improving. They are pleased that things that the new manager promised them in the spring have been done or are in planning stages. However, until SEF becomes consistent in applying guidelines for assessing materiality and whether or not a deviation from bid specifications is major or minor, vendors will still protest contract awards.

The majority of the vendors who bid on state contracts maintain their businesses in the Anchorage area. They would have liked to have the entire procurement section of the state equipment fleet moved to Anchorage instead of only the specification writer. The vendors feel that the move would improve user and constituent communications, save funds spent on travel and per diem expenses by both the State and the vendors, and make SEF more readily available to the business community.

DOTPF, on the other hand, feels the added expenses of the additional administrative support that would be necessary outweigh the travel costs, and, in order to function as a headquarters unit, SEF should be in Juneau with access to its users, the Legislature, and DOTPF Headquarters personnel and support staff. Regardless of how a cost analysis may turn out, the Commissioner has decided to keep SEF Headquarters close to his office until it is determined to be functioning effectively and efficiently again.

Any decision to relocate SEF procurement to Anchorage should be postponed until the equipment operations analyst position and other new methods of communication with the vendors have been operating long enough to properly evaluate their

effectiveness. Reevaluation of the situation should be performed in six to twelve months.

The department admits that a lot of mistakes were made in the past but feels that they are working hard to correct the situations that created them.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The State Equipment Fleet should improve its specification writing in the invitation to bid, should establish specific procedures for determining product equivalents, and should consistently apply guidelines for assessing material and immaterial deviations from bid specifications during the evaluation process.

The State Equipment Fleet (SEF) provides a service to all state agencies by purchasing and maintaining fleet vehicles and equipment for them. When a user desires to purchase new equipment, he notifies SEF of his needs. An invitation to bid (ITB) is prepared containing the bid specifications for the desired item(s). Our review included all invitations to bid and awards made by SEF during the period July 1, 1987 through August 15, 1989, a total of 117 lots. Twenty-two protests were made concerning those bids. Two of the protestors were successful in their protests of the bids. All of the protests addressed problems with the bid specifications in the invitation to bid. Twenty bids were cancelled completely; fifteen of the cancellations were due to inadequate specifications in the ITB.

- a. SEF should improve its specification writing in the invitation to bid.

The bid specifications are drawn up by the equipment operations analyst (specification writer) based on user needs and information supplied by vendors. Users notify SEF of their desire to acquire specific equipment. The spec writer meets with them and tries to obtain a detailed description of the requisite items before he writes the ITB. He also meets with the vendors in a pre-solicitation conference to determine if there is equipment available in the marketplace that can fulfill the user's demands. Then the spec writer produces the bid specifications which are incorporated into the invitation to bid.

If the final specifications in the invitation to bid do not accurately reflect the user's needs, either the user ends up with equipment he does not want or the bid is cancelled. SEF 030, lot 3, a bid for radial stacking conveyors, was cancelled because subsequent review of the ITB indicated that the specifications were inadequate to describe the type of item desired. When a bid is cancelled, everyone loses. The user does not receive his desired equipment in a timely manner; the vendors have to absorb the costs of putting a proposal together; and, SEF loses all the time and money already spent on the procurement as well as usually having to start the whole process over again.

Specifications have been written that asked for products that are outdated and not in production anymore. SEF 039 requested bids for a "progressive build process diesel powered cab and chassis." It specified a battery disconnect switch which had been discontinued for sale to original equipment manufacturers in early 1987. It is now only available from parts distributors as long as their supplies last. In SEF 039 the successful bidder substituted another switch which was more readily available. SEF finally accepted the substitute switch after considerable correspondence and compromise. The substitute switch was allowed to remain on the trucks, but the vendor was required to supply a spare switch of the discontinued model in case the substitute failed.

Demand for products that are outdated or not in production anymore usually occurs because the end user desires a specific type of item on the equipment. However, it is not the responsibility of the user to keep abreast of technological advances in the industry. More care needs to be used by the specification writer in combining user desires with products currently available in the marketplace.

We recommend that SEF continue its pre-solicitation workshops with the users and vendors in order to get the clearest possible ITBs issued. The SEF manager has informed us that a new policy has been implemented which asks the users to sign-off on the bid specifications before they are distributed in the invitation to bid. These policies, if followed through on, should be effective in cutting down on bid cancellations and protests.

- b. The State Equipment Fleet should establish specific procedures for determining product equivalents.

Bid specifications in some invitations to bid make use of brand or trade names to identify the "standard of quality, performance or characteristics desired" in an item. The statement "or State approved equivalent" follows the brand name in an attempt to open competition. The new bid package just developed by SEF states that "All such brand substitutions shall be subject to the State's approval." However, no written standard procedures have been established as to how to obtain designation as a substantially equivalent product or when that designation needs to take place.

One vendor, on the basis of discussion at a pre-bid meeting on February 17, 1989, concerning SEF 048, lot 7f, a bid for light duty trucks with a towing package and power angle snowplow installed, submitted a proposal listing what he thought was a state-approved equivalent for the specified snowplow. The contract was awarded to him; later SEF would

not accept his substitute saying it had not been previously approved. The vendor ended up having to supply the snowplow specified in the ITB. We recommend that processes for determining state-approved equivalents be established, published, and circulated throughout the vendor community.

- c. SEF should consistently apply guidelines for assessing material and immaterial deviations from the ITB specifications during the evaluation process.

According to AS 36.30.170, in order to win a contract award a bid must "conform in all material respects to the requirements and criteria set out in the invitation to bid." A minor informality is described in 2 AAC 12.990 as "matters of form rather than substance which are evident from the bid document, or are insignificant matters that have a negligible effect on price, quantity, quality, delivery, or contractual conditions and can be waived or corrected without prejudice to other bidders."

Judging materiality during a bid evaluation can be a difficult process. What one person decides is a material difference or a major deviation from the bid specifications that will cause a proposal to be determined unresponsive and rejected, another sees as a minor deviation that can be ignored. A recent invitation to bid (SEF 061) requested proposals for a bus to be used for transporting prisoners in the Anchorage area. The maximum allowable width for the bus was listed in the specifications. One bid was received that exceeded that width by one foot. How material is one foot? In this case it was very material as a van that was wider than specified would not be able to access the sally port at the Cook Inlet Pre-Trial Facility or the unloading area at the Court House.

Of the twenty-two bid protests made between July 1, 1987 and August 15, 1989, eight debated whether or not a deviation was material or immaterial.

We recommend that guidelines established by SEF be consistently applied when personnel are trying to determine whether a deviation from a bid specification is material or immaterial. It is essential to have the proposals reviewed to determine compliance with the bid specifications and the contract award recommended by more than one individual, preferably an equipment operations analyst and the contract officer. Any deviations from the bid specifications determined during the review need to be documented. The reviewers should have technical knowledge of the equipment being sought as well as procurement experience. If agreement on a contract award cannot be reached by the two people, a third person should be consulted to evaluate the proposals and recommend an award.

The bid evaluation process should be considered a feedback and reinforcement tool for the evaluators, and the entire

procedure should be documented. If one person is in disagreement with the rest, it is necessary to support the reasoning behind both that conflicting opinion and the final decision. As the process is repeated through successive bids, each evaluator will gain more experience in dealing with materiality issues, and SEF will establish consistency in determining materiality.

Recommendation No. 2

The State Equipment Fleet should develop an office policies and procedures manual and a desk manual for each of its staff positions.

An operations/policies and procedures manual provides office orientation to new staff members and assists individuals who need guidance in their responsibilities. It should clarify all specific office policies and procedures.

An individual desk manual outlines job task specifications for each position in the office. It enables a person not familiar with the position to take over and perform the job in an efficient and satisfactory manner. It serves as a reference and a checklist for assuring that all steps have been accomplished in completion of an assignment.

SEF does not currently have these organizational/management tools. In the last eighteen months, there has been a high turnover rate in SEF staff and addition of new staff positions. Without an operations manual or a desk manual available, each new person has had to start in a new job without any guidance materials. This deficiency has contributed to errors and omissions in the SEF procurement process such as lack of proper notice of the invitations to bid and, in SEF 052 relating to procurement of motor graders, the use of an incorrect procurement method which resulted in a bid cancellation.

SEF 052 was a rebid of an earlier ITB which had also been cancelled. Because the contract officer felt that there was a very limited amount of time available to procure the motor graders, he attempted to purchase them through the use of an alternative procurement method, a type B emergency procurement. Approval for the use of the type B emergency method should have been obtained from the DOTPF Commissioner prior to the issuance of the ITB. This was not done and the Commissioner, when the request reached him, decided that there was not sufficient urgency to warrant an emergency procurement.

We recommend that state equipment fleet personnel develop desk manuals for their own positions and have them approved by the SEF manager. These manuals should be continually

taken to ensure that all newly created files use it and, as time permits, old files are cleaned up.

updated so that they are kept current with present job responsibilities. An office operations manual should also be produced that will provide a guide to office policies and procedures.

Recommendation No. 3

The State Equipment Fleet should identify pertinent documents to be retained and implement a filing system for its bid files that will ensure they are organized and complete.

The new procurement code, Alaska Statute 36.30, transferred the delegation of purchasing authority for SEF purchases to DOTPF. The DOTPF Commissioner in turn delegated the authority to SEF itself.

SEF did not, at that time, set up a filing system for its bid files. A file is maintained for each bid but there is no organization of the information. Many files either contain more than one copy of a specific item or are completely missing important information. Not only are there usually several copies of an item in the files, they are placed in it in an indiscriminate fashion. There is no orderly arrangement of the information within the file and, in order to find anything, it is necessary to sort through all the papers.

The statutes require certain steps to be taken in the procurement process including adequate public notice of the invitation to bid, written notice of intent to award a contract, justification for the use of alternative procurement methods, and deadlines for legal protests. In order to prove compliance with those requirements, it is necessary to have some physical evidence that they have taken place. The bid files are the logical place to store the appropriate documentation.

We recommend immediate implementation of a filing system for the bid files. A check list of documentation required for each bid should be maintained in each file. As an item is placed in the file, it should be checked off. An occasional review of the check list would ensure that not only has all the required documentation been acquired and stored, but also that all the obligatory steps in the bid process have been taken.

Attention should also be given to a system of file organization. It could be set up so that each item of information can be found in the same place in each bid file or a system of indexing could be developed. Whatever design is chosen for organizing the bid files, the effort should be

APPENDIX B

DOTPF - SEF
SCHEDULE OF PROTESTS AND APPEALS
July 1, 1987 - August 15, 1989

STATE OF ALASKA

- 18 -

DIVISION OF LEGISLATIVE AUDIT

<u>ITB # - ITEM</u>	<u>AWARDEE</u>	<u>\$ PROTESTED</u>	<u>PROTESTOR</u>	<u>ISSUE PROTESTED/APPEALED</u>	<u>DECISION on PROTEST</u>	<u>RESULT</u>	<u>APPEALED?</u>	<u>DECISION on APPEAL</u>
SEF 014 - Rapid Intervention Vehicle	Emergency One	\$146,379	Fire-Bann	Questioned why their bid was rejected.	Did not follow required format in proposal.	Withdrawn	no	n/a
SEF 015 - Crash/Fire/Rescue Vehicle	Emergency One	206,792	Fire-Bann	Same as SEF 014.	Same as SEF 014.	Withdrawn	no	n/a
SEF 016 - Crash/Fire/Rescue Vehicle	Emergency One	206,762	Fire-Bann	Same as SEF 014.	Same as SEF 014.	Withdrawn	no	n/a
SEF 023 - Light Vehicles	Alaska Sales & Service	889,026 4 lots	Sahlberg Equipment	Low bid did not conform to ITB specifications.	Determined to be minor deviations by SEF. Untimely protest.	Denied	no	n/a
SEF 024 - Sweeper	Sahlberg Equipment	27,875	Construction Machinery	CMI (low bid) should not have been determined unresponsive Equal offered was state-of-the-art product.	Product offered by CMI was unacceptable equal.	Denied	no	n/a
Crawler dozer	N.C. Machinery	94,870	Craig Taylor Equipment Co.	State accepted offer that would not be in compliance with the performance specifications.	Untimely protest.	Denied	no	n/a
SEF 027 - Rotary Snowplows	Alaska Truck Center	485,222	Sahlberg Equipment	Low bid was a prototype. (1) 4 parts did not meet bid specifications.	Low bid was not a prototype. 4 parts were in conformance.	Denied	yes	Denied by Hearing Officer.
SEF 028 - 4 yard Street Sweepers	Sahlberg Equipment	217,172	Howard Cooper	Howard Cooper's low bid rejected as determined to be a prototype.	Subsequent review determined HC not a prototype.	Revised Award	no	n/a

APPENDIX A

DOTPF - SEF
Summary of Bid Awards
July 1, 1987 - August 15, 1989

<u>Type of Item</u>	<u>Number of Items (1)</u>	<u>Dollar Value of Items (4)</u>	<u>% of Total Bids Requested</u>	<u>% of Total Dollar Value</u>
Bids Requested	117	\$14,487,336	100.00%	100.00%
Bid Cancellations (3)	20	-	17.09%	-
Bids are Rebids of Previous Bids	15	-	12.82%	-
Protests Made (2)	22	\$4,150,502	18.80%	28.65%
Appeals Made	10	\$2,016,370	8.55%	13.92%

- Note:
- (1) Number of bids requested includes all individual lots in each request.
 - (2) Number of protests made includes multiple protests on a single bid.
 - (3) Bid cancellations include bids cancelled as a result of the appeal protest.
 - (4) Dollar value amount of items does not include any funds expended on long-term vehicle leases.

APPENDIX C

DOTPF - SEF
Schedule of Bid Cancellations
 July 1, 1987 - August 15, 1989

<u>Bid Number - Item</u>	<u>Lot #</u>	<u>Entity Requesting Cancellation</u>	<u>SEF Justification for Cancellation</u>
SEF 018 - Long-Term Vehicle Lease	1 - 8	SEF	Specifications were inadequate. (Rebid as SEF-021.)
SEF 030 - Stacking conveyors	3	SEF	All bids were rejected. Specifications were inadequate. (Rebid as SEF-035.)
SEF 033 - Crash/Fire/Rescue Vehicle	1	User	User determined needed 3,000 gal. unit instead of 1,500 gal. as listed in ITB. (Rebid as SEF-036.)
SEF 036 - Crash/Fire/Rescue Vehicle	1	User	Rebid of SEF 033. Cancelled due to "unexpected changes in the needs of the user group" as a result of accident with similar vehicle. (Not rebid yet.)
SEF 038 - Jet Runway Brooms	1	SEF	As a result of an appeal to the Commissioner, all bids were rejected. Inadequate specs in ITB. (Rebid as SEF-054.)
SEF 041 - Snowplows & Hitches	1	SEF	Proposed equipment did not meet ITB design specifications. (Rebid as SEF-051.)
	4	SEF	No bids received for item. (Rebid as SEF-051.)
SEF 044 - Motor Graders	1	SEF	Low bid contained material deviation from specs; 2nd low exceeds available funding. (Rebid as SEF-052.)
SEF 049 - Trucks/Service Bodies	7	User	No need for 24,000 pound trucks; Specs did not require early delivery; Specs were inadequate to describe size required; not in State's best interests. (Rebid as SEF-063.)
	8	User	Specs did not require early delivery; not in State's best interests. (Not rebid yet.)
	10	SEF	No bids received. (Not rebid yet.)

APPENDIX B
(continued)

DOTPF - SEF
SCHEDULE OF PROTESTS AND APPEALS
July 1, 1987 - August 15, 1987

STATE OF ALASKA

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DIVISION OF LEGISLATIVE AUDIT

ITB # - ITEM	AWARDEE	\$ PROTESTED	PROTESTOR	ISSUE PROTESTED/Appealed	DECISION on PROTEST	RESULT	APPEALED?	DECISION on APPEAL
SEF 030 - Sand Spreaders	Howard Cooper	\$179,998	Sahlberg Equipment	Howard Cooper product really is a prototype.	Howard Cooper product not a prototype.	Denied	yes	Commissioner upheld contract officer. Denied hearing.
	Alaska Truck Center	138,095	Sahlberg Equipment	Alaska Truck Center product is a prototype.	ATC product is not a prototype.	Denied	yes	Hearing officer overturned bid award.
	Alaska Truck Center	13,101	Sahlberg Equipment	Alaska Truck Center product is a prototype.	ATC product is not a prototype.	Denied	no	n/a
	Sahlberg Equipment	170,156	Alaska Truck Center	State is sole sourcing a competitive product.	Untimely protest.	Denied	no	n/a
SEF 031 - Crash/Fire/Rescue Vehicle	Emergency One	305,582	Oshkosh Truck Corp.	OTC's (low bid) deviations were minor and therefore acceptable.	Deviations were material.	Denied	yes	Commissioner denied appeal w/out a hearing.
SEF 038 - Jet Runway Brooms	Howard Cooper	161,999	Sahlberg Equipment	Last minute specifications were added that were not fair or reasonable, eliminated competition or were ambiguous.	Amendments were result of pre-bid mtg. with vendors. Bids evaluated fairly.	Denied	yes	Commissioner rejected all bids. Rebid as SEF 054.
SEF 048 - Light Duty Trucks	Alaska Sales Alaska Sales Nye Ford	222,893 545,761 46,913	Anch Chrysler Anch Chrysler Anch Chrysler	Material error by both the low bidders and SEF. Independent verification was used. Uninitialed alterations on bid documents.	All deviations were judged to be minor. Use of independent verification is okay.	Denied Denied Denied	yes yes yes	Commissioner upheld hearing officer's deci- sion to affirm contract officer decision.
SEF 049 - Heavy Trucks	Cal Worthington Cal Worthington	68,262 23,644	Anch Chrysler Anch Chrysler	Same as SEF 048.	Same as SEF 048.	Denied Denied	yes yes	Same as SEF 048.

(1) A prototype is defined as a one of a kind model; not produced commercially; a forerunner of a model line.

N/A - Not applicable.

APPENDIX C
(continued)

DOTPF - SEF
Schedule of Bid Cancellations
July 1, 1987 - August 15, 1989

<u>Bid Number - Item</u>	<u>Lot #</u>	<u>Entity Requesting Cancellation</u>	<u>SEF Justification for Cancellation</u>
SEF 052 - Motor Graders	1	SEF	Issued as an emergency procurement prior to receipt of Commissioner's approval. Commissioner determined that not urgent enough for use of emergency procurement. (Rebid of SEF-044. Rebid as SEF-053.)
SEF 060 - Used Belly Dumps	1	User	Inadequate specs; all bids exceeded available funds. All bids were rejected. (Not to be rebid.)

were protested. Although we agree that this is an unacceptable number of protests, I believe it is important to give the proper perspective here by stressing that in only 2 cases (or 1% of the total) did vendors prevail in their protest or appeal.

This would indicate that although vendors felt aggrieved by SEF decisions, those decisions were ultimately deemed to be correct by various avenues of the protest process including outside appeal officers. We would submit that changes in the procurement law had as much to do with the number of protests as the actual decisions made by SEF personnel.

Recommendation No. 1

The State Equipment Fleet should improve its specification writing in the invitation to bid, should establish specific procedures for determining product equivalents, and should consistently apply guidelines for assessing material and immaterial deviations from bid specifications during the evaluation process.

SEF records show slightly different totals for bids, protests and cancellations than you show in your introductory paragraph. However, the difference does not appear to be substantial and would not significantly change your findings.

The research done by SEF also indicates that the protest trend has improved in the last 9-10 months. It was recognized in 1988 that there was a problem in this area and steps were taken to improve the procurement process. We feel it is important to point this out.

a. SEF should improve its specification writing in the Invitation to Bid.

There is general agreement that specification writing needs improvement. Three steps have been taken to address this within the last six months. First, a revised specification format was established for use by the specification writer. Second, pre-solicitation conferences are being held with users and vendors before final specifications are put out to bid. Finally, we are now asking user groups to sign off on final specifications.

We agree with your recommendation and will continue to use these policies towards the end of improving all specifications.

STEVE COWPER, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

PHONE.

November 28, 1989

Randy S. Welker
Legislative Auditor
Division of Legislative Audit
P.O. Box W
Juneau, Alaska 99811-3300

RECEIVED
NOV 28 1989

LEGISLATIVE
AUDIT

RE: Response to Preliminary Audit Report on:

"A Special Report on the Department of
Transportation and Public Facilities, State
Equipment Fleet, Procurement Policies and
Practices, July 1, 1987 - August 15, 1989."

Dear Mr. Welker:

State Equipment Fleet (SEF) staff and myself have reviewed the
subject Preliminary Audit Report. Our response to the Report
Conclusion and to each recommendation is as follows.

Report Conclusion

There are several comments that need to be made relative to
statements in the Report Conclusion.

Although the total reorganization of SEF Headquarters staff
was not completed until February 1989, it is inaccurate to
portray that group as being without management from 1986
until then. After it was determined by the department that
a higher level of management was needed to oversee SEF
(Equipment Manager Range 23 versus Equipment Coordinator
Range 21), steps were taken to temporarily assign an "Acting
Manager" in 1988. A permanent manager was appointed in
February of 1989. It appears that your audit substantiates
our conclusion that additional management and reorganization
was required. It should also be noted that the reorgan-
ization and additional positions were accomplished without
any increase in the section's budget. Transfers between
budgeted line items and cost reductions made this possible.

As to protests, they are a normal part of the procurement
process. The Report Conclusions show that 19% (22 of 117)
of the bid lots between July 1, 1987 and August 15, 1989

- b. SEF should establish specific procedures for determining product equivalents.

SEF agrees with this recommendation and will work to establish such procedures. These procedures will be communicated to the vendors by incorporation in the new bid package, with expected implementation during the first quarter of 1990.

- c. SEF should consistently apply guidelines for assessing material and immaterial deviations from the ITB specifications during the evaluation process.

SEF agrees with this recommendation and had made a decision to pursue this prior to the initiation of the audit. As the audit report pointed out, materiality is a difficult issue. B' its very nature, many decisions must be made on a "case by case" basis and cannot be predetermined and published. However, we do feel it is possible to develop guidelines that will help achieve consistency and we will work towards that end. We will communicate these guidelines to the vendors via a "bidder's list mailing", with implementation anticipated during the first quarter of 1990.

I would point out that the "materiality" language in AS 36.30 was written to provide the flexibility to make awards that are in the best interests of the state and to preclude throwing bids out for minor technical defects. This is consistent with practices at the Division of General Services and Supply, Department of Administration.

In an effort to more clearly communicate that materiality is a definite part of our bid award process, a letter was sent to all vendors addressing its basis in law and the requirement by statute that it be used in determining bid awards.

The bid evaluation process you have recommended whereby a minimum of two reviewers are used with disagreement moderated by a third reviewer, has already become standard practice within SEF.

Recommendation No. 2

The State Equipment Fleet should develop an office policies and procedures manual and a desk manual for each of its staff positions.

SEF concurs with this recommendation. This process has already begun and will include a complete rewrite of all SEF Policies and

Procedures. It is anticipated implementation will take until the end of CY 1990.

There are some statements in Recommendation No. 2 that need clarification. Reference is made to SEF 052 as "the use of an incorrect procurement method which resulted in a bid cancellation." SEF 052 was a rebid of an earlier Invitation to Bid (ITB) which had been cancelled. The user agency (DOT&PF Maintenance and Operations) requested alternate procurement methods be used because they needed the equipment sooner than a formal bid process would allow. The contract officer correctly processed a Request for Alternate Procurement (RAP) and was using an approved and correct procurement method. However, during this process, closer scrutiny by the using agency revealed that their needs really did not qualify under the Type B emergency. The RAP had already been approved before the ITB was issued. As a result of the user agency determining that they really did not have a Type B emergency, SEF cancelled the ITB. It is important to note here that the contract officer was complying with the request of the user agency and had based his decisions on information they provided. His approach and methodology were correct and in accordance with statutes.

Recommendation No. 3

The State Equipment Fleet should identify pertinent documents to be retained and implement a filing system for its bid files that will ensure they are organized and complete.

SEF concurs with this recommendation. A preliminary filing system has already been developed with full implementation expected prior to the end of 1989.

Additional Comments

We agree with the Auditor's comments that any decision to relocate the SEF procurement staff should be postponed and reevaluated at a future time. We intend to do this once sufficient time has passed for a proper evaluation.

We were pleased with the report conclusion that the State Equipment Fleet is in compliance with all provisions of Alaska Statutes 36.30. We were confident that your review would not reveal improprieties or illegal activities, either intentional or unintentional, and we were pleased to see your report confirms this to be so.

Randy S. Welker

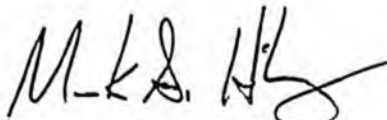
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November 28, 1989

Summary

We appreciate the opportunity of providing our response to this preliminary report. We will look forward to reviewing the final version. In the meantime, please do not hesitate to ask if I can be of further help.

Sincerely,

A handwritten signature in black ink, appearing to read "M.S. Hickey", with a stylized flourish at the end.

Mark S. Hickey
Commissioner

cc: Robert N. Bartholomew, Director, Management & Finance
Ken Langel, Manager, Statewide Equipment Fleet

STATE OF ALASKA

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

December 12, 1989

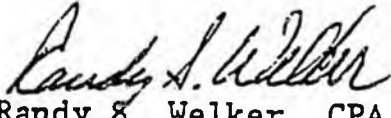
Members of the Legislative Budget
and Audit Committee

We have reviewed the Department of Transportation and Public Facilities' (DOTPF) response to our preliminary report. Our comment follows:

Recommendation No. 2

Overall DOTPF concurred with the recommendation. As a point of clarification, they mentioned that the Request for Alternate Procurement (RAP) for SEF 052 had been approved by the Commissioner. Therefore it had been correctly processed by the contract officer and was in accordance with Alaska Statute 36.30. To support this statement the department was able to locate a signed copy of the RAP which had not been included in the SEF 052 procurement file.

This clarification does not change our recommendation for the development of an office policies and procedures manual and a desk manual for each staff position.


Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

Assis From LEGIS

STATE EQUIPMENT FLEET
TASK FORCE
DRAFT REPORT

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STATE EQUIPMENT FLEET TASK FORCEINTRODUCTION

The State Equipment Fleet (SEF) Task Force was established to review several aspects of fleet operations and organization. The primary goals of the Task Force were to develop recommendations which would improve the operations of the fleet, stabilize the fiscal condition of the Highway Equipment Working Capital Fund (HEWCF), and address the concerns of user agencies.

The Task Force focused its work on the following objectives:

1. Review of the current replacement program to ascertain whether conversion to managing the HEWCF using the cash flow concept is working. If not suggest remedies.
2. Address alternatives to state vehicles, including use of privately owned vehicles or lease vehicles.
3. Review current SEF organizational structure, i.e., centralization vs. regionalization for most efficient management structure.
4. Review and suggest policy guidelines on the number and use of state vehicles.

5. Review effectiveness of current rate structure for both the replacement program and operations. Recommend necessary changes.
6. Review effectiveness of billing and accounts receivable process including the use of Equipment Management System (EMS) and suggest improvements.
7. Address and develop communication plan which will allow user groups to keep informed on SEF operations.

The members of the SEF Task Force are:

Frank Allan, Administrative Officer, Department of Public Safety

Elizabeth Engle, Director, Design and Construction, Northern Region, DOT&PF

Jack Kreinheder, Policy Analyst, Office of Management and Budget

Donald Morfield, Director, Maintenance and Operations, Central Region, DOT&PF

D. Randy Simmons, Deputy Commissioner, Budget and Finance, DOT&PF

EXECUTIVE SUMMARY

The main findings and recommendations of the Task Force are summarized below, with the numbers corresponding to the issues listed above.

1. The cash flow method of managing the HEWCF is not working adequately, and has placed the SEF in a financially unsound position. We recommend that a legislative appropriation or series of appropriations, to the HEWCF

to partially restore previous reappropriations from the fund would be the most financially prudent option. Based on current information, an appropriation or appropriations in the range of \$6 million to \$8 million would be necessary to eliminate the current replacement backlog.

If this option is not feasible because of revenue considerations or other factors, several less attractive alternatives must be considered. These include but are not limited to, raising user replacement rates (which would simply shift the cost to agencies), replacing vehicles through lease/purchase agreements, or eliminating the current replacement funding system entirely and relying on annual capital appropriations by the Legislature.

The SEF needs to develop an accurate cash flow projection system if cash flow financing is to be continued. The SEF should also make more accurate estimates of replacement costs, particularly for extended life vehicles.

2. The Task Force evaluated several alternatives to the present SEF structure, including utilization of vehicles owned by state employees, replacing HEWCF vehicles with vehicles leased from the private sector, and replacing the SEF with a system in which each department would operate its own vehicles. None of these alternatives were determined to be preferable to the current SEF structure, because they are not cost-effective, or administratively practical, or both. However, unless some amount of supplemental funding is provided to eliminate the current replacement backlog, agencies may be forced to rely on lease/purchase arrangements for vehicle replacements, even though the long-term costs of this alternative are higher.

3. It is the Task Force's recommendation that no major changes to the organizational structure be made at this time. That is, the regional operations should continue to report to the M&O Directors in their respective regions and the HQ functions should continue to report to the Director of Management and Finance in Juneau. As to the location of the HQ functions, because of their statewide nature it is recommended that these functions continue to be performed out of Juneau with one exception; that exception relates to the purchasing function. Since the majority of vendors reside in Anchorage it is recommended that on a trial basis, one purchasing specialist be located in Anchorage (but continue to report to HQ) in an effort to determine if additional efficiencies can be attained. However, the Task Force supports the current proposed DOT&PF internal reorganization of the Headquarters SEF section in order to improve the efficiency of SEF operations.

4. The SEF needs to take a larger role in approving vehicle replacements and evaluating vehicle utilization. Procedures should be developed which will identify vehicles that are under-utilized. The SEF should also monitor the utilization of existing vehicles on a regular basis, rather than waiting until a replacement is needed.

These recommendations involve a major shift from current practices and will require support from the Governor's Office to be effective. We recommend that a directive from the Governor or Chief of Staff requiring the new procedures be issued to all user agencies.

5. The SEF should review the current rate structure, both operating and fixed, to establish rates that will allow for the collection of sufficient revenues to replace and operate essential equipment. Fixed and operating costs must be based on acquisition costs and actual operating costs and should be reviewed and adjusted yearly. Formulas should be simple and computerized for ease of calculation. Anticipated rates need to go to users early in the fiscal year to allow them to budget accordingly. To the extent possible, rates should not be influenced by political pressure.

6. We have identified twelve modifications which would reduce duplication of effort and improve the billing and accounts receivable process of the EMS. These include: (a) provide a one-entry system for vehicle use in EMS that would be entered by field personnel, verified at the user agency level, by SEF and then be read by AKSAS to produce billings; (b) modify EMS to include "inception-to-date" data on vehicle replacement costs; and (c) current month billing for both operating and replacement costs would be beneficial to users.

7. Communications between the HQ's SEF, regional SEF staff and user agencies needs to be improved. The Task Force recommends that regional SEF offices receive reading file updates, and possibly a newsletter, which could be passed on to user agencies informing them of SEF policy updates and information relating to vehicle usage. As the main contact point for user agencies, the regional SEF staff needs to be familiar with all SEF policies and procedures. We also recommend that an Annual Fleet Report be established to provide comprehensive information on the SEF to users.

The Task Force recognizes that it may not be feasible to implement every one of these recommendations because of limitations in funding and staff resources as well as other factors. However, we believe that the changes we have suggested are important steps in improving the efficiency of the fleet. They are also necessary to restore the HEWCF to a sound fiscal basis, which will result in the lowest long-term cost for meeting the state's vehicle and equipment needs.

TASK ISSUE #1

"Review the current replacement program to ascertain whether conversion to managing the HEWCF using the cash flow concept is working. If not, suggest remedies."

RECOMMENDATIONS

- ° The cash flow financing method is not working adequately, and has placed the SEF in a financially unsound position. We recommend that a legislative appropriation or series of appropriations to the HEWCF to partially restore previous reappropriations from the fund would be the most financially prudent option. Based on current information, it appears that an appropriation or appropriations in the range of \$6 million to \$8 million would be necessary to eliminate the current replacement backlog.

If this option is not possible, other alternatives must be considered, including raising user replacement rates, replacing vehicles through lease/purchase agreements, or dropping the current replacement funding system entirely and relying on annual appropriations by the Legislature.

- ° The SEF needs to develop an accurate cash flow projection system if cash flow financing is to be continued. Parts of this system are already in place, but additional work is necessary to accurately project replacement costs and revenues.
- ° More accurate estimates of replacement costs should be developed, particularly for extended life vehicles.

- ° The SEF staff should determine the feasibility of tracking replacement charges by individual vehicle and department, rather than commingling replacement funds.

DISCUSSION

Our review of the current and projected financial condition of the HEWCF clearly demonstrates that the cash flow financing method as presently administered is not working adequately, and has placed the SEF in a financially unsound position.

Because of insufficient funds in the HEWCF, the SEF is approximately one and a half years behind on most scheduled equipment replacements. In addition, current and projected replacement revenues are not expected to be large enough to allow the SEF to "catch up" with this replacement backlog and to fund future replacement needs. This replacement backlog has resulted in equipment and vehicles being operated beyond their useful lives, increasing the cost of operations and maintenance and placing upward pressure on user rates.

This situation has been caused primarily by the drawdown of the HEWCF balance through several large legislative reappropriations of HEWCF monies, and the reduction of user replacement rates in FY87 to levels too low to cover actual replacement costs. It appears that the FY87 reappropriation of \$25 million from the HEWCF removed about \$12 million more than the fund could spare.

We believe that the cash flow financing system can operate properly once the HEWCF balance and replacement rates are restored to adequate levels and the replacement backlog is eliminated. Based on our review to date, it appears

that a legislative appropriation or series of appropriations to the HEWCF in the range of \$6 million to \$8 million will be necessary to eliminate the replacement backlog and restore the SEF to sound financial footing. Additional analysis by the SEF staff of replacement funding requirements and rate levels is necessary to refine this estimate.

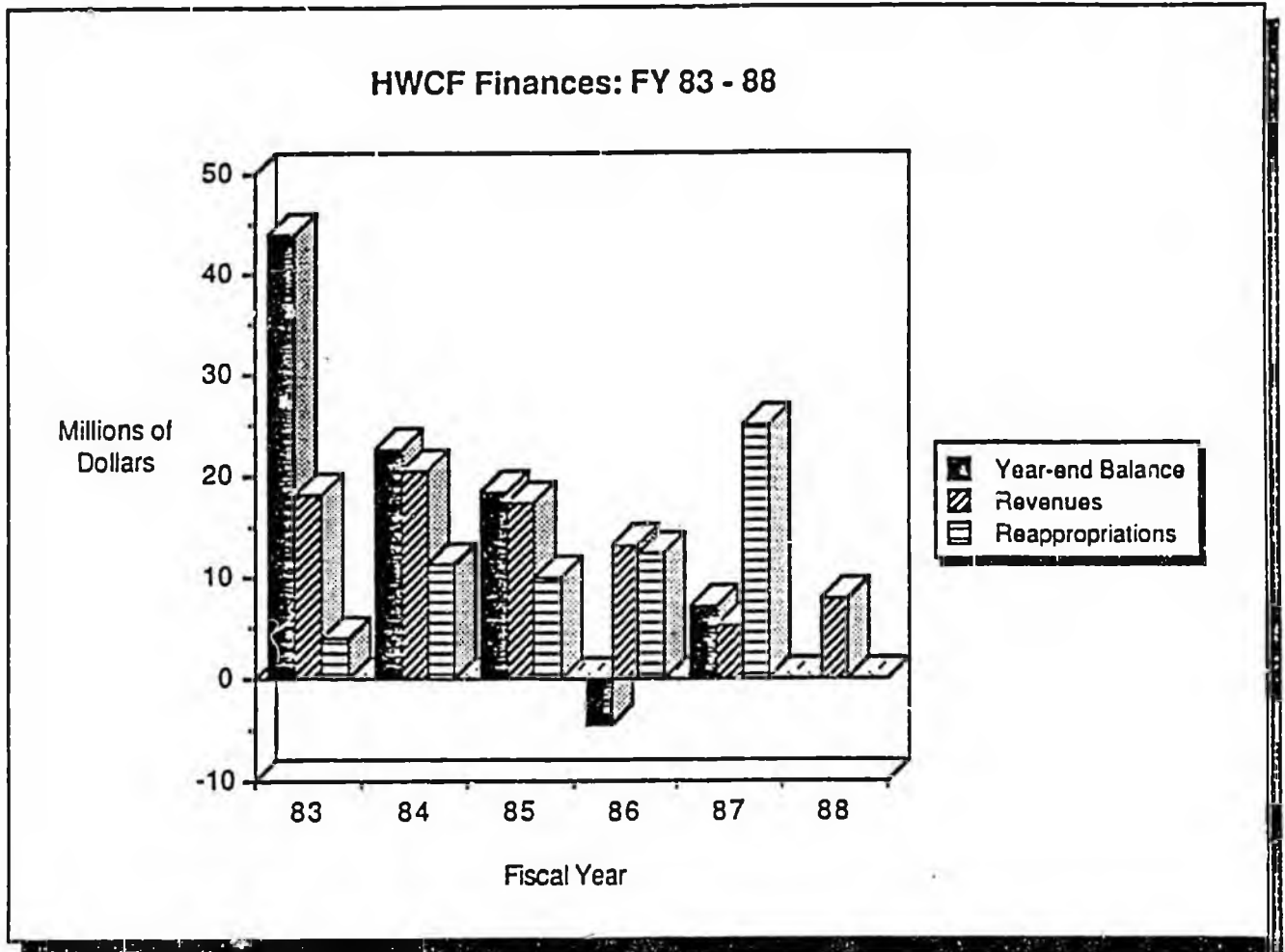
A second alternative for restoring the HEWCF balance would be to increase user replacement rates substantially above the level of actual replacement costs for several years. However, this option would just spread the cost of eliminating the backlog across all user agencies. If neither of these actions is taken, replacement delays will continue to occur, operating and maintenance costs will increase, and the risk of operating potentially unsafe vehicles will rise.

Why Cash Flow Financing is Not Working

For many years, the HEWCF was operated on a sinking fund basis in which the monthly replacement fees paid by vehicle users accumulated in the fund so that when a vehicle was replaced the cost was covered by the replacement revenues which accrued in the HEWCF over the life of the vehicle. In contrast, the current cash flow method of financing vehicle replacements does not allow replacement revenues to build up in the HEWCF, but instead collects just enough revenue each year to cover the cost of replacements for that year.

DOT&PF made the conversion from sinking fund to cash flow financing in FY86 when it became apparent that the cash balance left in the HEWCF after several legislative reappropriations from the fund was only large enough to meet the immediate needs of the replacement program. Between FY83 and FY87, a total of

\$62.7 million was reappropriated from the HEWCF to the general fund. Figure 1 shows the amounts reappropriated in each year and the end-of-year balance of the HEWCF.



The largest reappropriation from the HEWCF was made in FY87, when \$25 million was transferred to the general fund. It appears that a major error was made in estimating how much money could be removed from the HEWCF, while still enabling the fund to cover vehicle replacement costs. About \$12 million more was reappropriated in FY87 than was possible without causing a shortfall in replacement funds.

The SEF may have been able to adjust to the decreasing balance of the HEWCF and make a successful conversion to cash flow financing if replacement rates had remained stable. However, in FY86 DOT&PF determined that replacement rates were excessive, and reduced rates by an average of 21 percent.

In FY87, replacement rates were again reduced initially by about 7 percent, and then were lowered an additional 49 percent in response to Governor Sheffield's mandate to reduce all agency operating budgets. All of the parties involved apparently recognized that with this reduction, the FY87 rates were well below the levels necessary to fund vehicle replacement costs, but the decision was made that the state's immediate fiscal situation required the rate reduction.

In FY88, replacement rates were increased by 47 percent, but even with this increase, average FY88 rates were still 35 percent below FY86 levels and 49 percent lower than FY85 rates.

Figure 1 shows the replacement revenues to the HEWCF in FY85-88. These revenues fell from \$17.4 million in FY85 to \$5.2 million in FY87, and are projected to rebound somewhat to about \$8.0 million in FY88.

The sharp decrease in replacement rates and revenues, combined with the large reappropriation from the HEWCF, has left the HEWCF with insufficient funds to replace many of the vehicles which have been determined to need replacement in FY86-88. SEF staff estimate that the average delay in replacement is now approximately one and a half years.

It is important to note that the vehicles which have been designated for replacement have not just reached the end of their "paper lives," but have been individually inspected and determined to be either unsafe or more expensive to operate and maintain than to replace. As more replacements have been deferred, operating and maintenance costs for many of these vehicles have increased substantially.

In summary, the conversion to cash flow financing has not been the real cause of the current financial problems of the SEF; the primary causes have been reducing the HEWCF balance and annual replacement revenues to the point that cash flow financing cannot provide sufficient funds to make the necessary replacements.

An additional factor was that the conversion from sinking fund to cash flow financing was not planned by DOT&PF, but instead occurred by default as the Legislature appropriated money from the HEWCF to the point that sinking fund financing was no longer possible. As a result, the detailed financial analysis which is necessary to properly administer a cash flow financing system was not implemented by the SEF. When the HEWCF had a large cash balance, precise annual projections of revenues and replacements were not as necessary, but such projections are essential when revenues must match replacement costs on a year-to-year basis.

Restoring the HEWCF to a Sound Financial Basis

We believe that the cash flow financing method can operate properly once the HEWCF balance and replacement rates are restored to adequate levels and the replacement backlog is eliminated. Realistically, cash flow financing is

probably the only way the SEF will be able to operate for the foreseeable future, since reverting to the sinking fund method would require a very large appropriation to the HEWCF.

The first step which is necessary to improve the financial condition of the HEWCF is to develop an accurate cash flow projection system. This system should be able to forecast both replacement costs and revenues over a two year period. Parts of this system are already in place, but further work is necessary to complete a reliable system for managing the HEWCF.

As part of this effort, more accurate estimates of replacement costs need to be developed, particularly for extended life vehicles (vehicles which have reached the end of their paper lives, but have been inspected and approved for continued use). Under current procedures, replacement projections assume that all vehicles in the extended life class will be replaced in the next year, when in fact, many of these vehicles may be usable for several years. Therefore, current replacement projections tend to overstate the number and cost of vehicles to be replaced.

The SEF staff should also investigate the feasibility of tracking replacement charges by individual vehicle and department, rather than the current approach of commingling all replacement funds in a single account. This alternative could allow the SEF to make adjustments for actual replacement costs that were higher or lower than the charges collected, and would allow agencies to be credited for vehicles which were not replaced. In addition, user agencies may have more confidence in the HEWCF if an individual accounting of their replacement funds is available.

These measures are important steps in improving management of the HEWCF, but they will not solve the SEF's biggest problem--the backlog of vehicle replacements and the insufficient balance of the HEWCF. There are essentially five options for addressing the problem:

1. Obtain a legislative appropriation or series of appropriations to the HEWCF in order to restore the fund balance to a level that will cover the cost of the replacement backlog.
2. Increase user replacement rates above the level needed to cover actual replacement costs. The additional revenue could then be used to eventually eliminate the replacement backlog.
3. Enter into lease/purchase agreements for replacement vehicles instead of purchasing outright.
4. Eliminate the current replacement system and the HEWCF entirely and rely on annual capital appropriations by the Legislature to fund replacements.
5. Take no action.

Of these options, restoring the balance of the HEWCF through a legislative appropriation or appropriations is probably the best solution from a financial management standpoint. Justification for such an appropriation(s) can be provided by the fact that the FY87 reappropriation of \$25 million from the HEWCF was largely responsible for the current financial condition of the HEWCF. Nevertheless, obtaining such an appropriation(s) may be difficult.

Based on available information, it appears that an appropriation(s) in the range of \$6 million to \$8 million would be necessary to eliminate the current replacement backlog. Additional analysis of replacement funding requirements and rate levels is necessary to refine this estimate.

Increasing user replacement rates could accomplish the same objective over a longer period, but this approach would simply spread out the cost of an appropriation(s) to the HEWCF over all user agencies, and would increase their budgets accordingly. Substantial resistance to this approach from user agencies is to be expected, because with the exception of the low FY87 rates, the agencies have already paid for the vehicles awaiting replacement.

The lease/purchase option is discussed in detail in a separate section of this report. This alternative would allow the SEF to acquire replacement vehicles with no initial purchase cost, but would increase yearly user costs substantially. In addition, a buyout cost of as much as 25 percent of the vehicle cost may be required at the end of the lease term. In summary, lease/purchase agreements would defer vehicle purchase costs, but would increase overall cost of the SEF to the state. Therefore, this option only postpones the financial problems of the HEWCF, rather than providing a lasting solution.

A fourth alternative would be to eliminate the HEWCF and rely on annual appropriations by the Legislature to fund vehicle replacements. This approach would avoid the need to restore the balance of the HEWCF. It might also result in more legislative scrutiny of replacement funding requests. However, this alternative would eliminate the advantages of centralized financial management

of the SEF, and would result in extensive duplication of effort among agencies. This duplication of effort would probably make this replacement approach more expensive in the long run than the current HEWCF structure.

Taking no action would result in continued replacement delays, and is likely to increase operating and maintenance costs as older vehicles must be maintained and overhauled beyond their useful lives. Operating rates would have to be increased to cover these additional costs. In addition, the likelihood of agencies operating potentially unsafe vehicles will increase if vehicles designated for replacement continue to be operated indefinitely.

TASK ISSUES #2

"Address alternatives to state vehicles, including the use of privately owned vehicles or lease vehicles."

RECOMMENDATIONS

The Task Force recommends that the SEF as currently structured and the HEWCF remain in effect and that prior withdrawals from the fund be replaced to the level that would allow for the replacement of agency vehicles as scheduled.

DISCUSSION

This item can be broken down into five options that have been examined in detail. They are:

- 1) Utilization of vehicles owned by state employees and, in effect leased by the state from them.
- 2) Replace HEWCF vehicles with vehicles leased from the private sector.
- 3) Replace HEWCF vehicles with vehicles leased from the private sector with title transferred to the state at the conclusion of the lease or with a buy out option.
- 4) Replace the SEF with a system in which each department operates its own vehicles.

- 5) Maintain the SEF with changes to improve its operation.

Employee Owned Vehicles

Under this option, state employees would purchase vehicles specified by the state as to make, model and equipment. These vehicles would then be leased back to the state based upon either mileage driven in service of the state or by hours of operation in state service. This type of option has seen some success in the public sector but appears to be limited to small law enforcement organizations with limited responsibilities and a uniform operating environment.

Advantages:

- a. No state vehicle purchase costs.
- b. Limited inventory responsibilities.
- c. Savings would be realized in the areas of SEF maintenance personnel costs if employee was responsible for providing a well maintained vehicle.

Disadvantages:

- a. This option could not be universally employed within the fleet because heavy equipment is too expensive for employees to purchase initially. If this option was employed only on light duty vehicles,

potential savings would be limited due to having what would amount to two fleets; one owned by the state and one not. Administrative costs would be increased over the present SEF requirements.

- b. The SEF and the user agencies would still be responsible for determining equipment specifications and requirements. The administrative costs would not be removed under this plan; indeed they may be increased due to the complexities involved and the follow-up required to assure compliance.
- c. Additional accounting controls would need to be put into effect to prevent potential fraudulent claims on hour or mileage reporting. This again would increase administrative costs.
- d. A potential exists that if all maintenance costs were borne by the state, the employee would tend to incur unreasonably high maintenance to protect the employee's asset.
- e. If the employee was responsible for maintenance there is a possibility that he or she might cut corners to save money. This may result in unsafe vehicles being operated in state service. Any resulting accidents could legally be attributed to the state for not assuring that the appropriate maintenance was performed. At a minimum, the state would need to put in place a maintenance oversight organization to protect itself against potential litigation. Again, this would incur additional expense for SEF or at least maintain a portion of the current SEF staff involved in the maintenance of the fleet. This would partially offset any potential savings.

- f. If the employee was promoted or transferred to a position that would require a different vehicle type either because of work assignment or climate, how would this program handle such a situation? It could not without the state purchasing the original vehicle or placing an unreasonable demand upon the employee. A related problem exists on termination. Would the employee be stuck with a vehicle he does not want?

- g. Standardization and compatibility of vehicle equipment would be difficult to maintain. Radios, lightbars, etc. would all be troublesome to make uniform. This is not workable in a state as diverse as Alaska.

- h. How would the vehicles be insured? The employee's private insurer would be reluctant to insure such a vehicle in state service because the insured population would be insufficiently large to cover the exposure. If the state covers the vehicle while it is in state service and the private insurer while otherwise employed, conflicts would be sure to arise. Employees would be tempted to charge damage to Risk Management rather than their own insurance to keep their personal expenses minimized.

- i. If the employee's vehicle was involved in an accident or otherwise in need of a repair requiring time when it would not be available, how would the employee obtain a replacement? Short term rentals are often not readily available and usually could be expected not to have compatible equipment (radios with correct crystals, lightbars with the correct colored lenses, etc.).

Potential savings of utilizing employee-owned vehicles leased back to the state would be lost to a multitude of legal, administrative and operational difficulties and therefore, this option is not recommended by the Task Force.

Straight Leasing of Vehicles

This plan of operation would call for the state to lease all or part of its fleet from the private sector and return the vehicle to the lessor at the conclusion of the lease. This possible option is not addressed in detail due to the universal refusal of potential vendors to accept a straight lease. They are categorically disinterested in having to accept back a large number of similar vehicles at the end of a lease period. As stated earlier, this option is not feasible because potential vendors have universally refused to accept straight leases.

Lease/Purchase Option

This option would replace the current HEWCF vehicles with a fleet obtained from entering into lease/purchase agreements with appropriate vendors. It appears through discussion with potential vendors that agreements could be signed whereby the state preferably would automatically obtain title to vehicles at the end of the lease or where a depreciated purchase price would be required at the end of the lease.

Advantages:

- a. No state vehicle purchase costs. This may be the only way to provide replacements if the HEWCF reappropriations are not replaced.
- b. Ultimate ownership of the vehicle would revert to the state at the end of the lease and they could begin normal HEWCF treatment at that time if their life could be extended.
- c. Sale of disposed vehicles could be used by the HEWCF (assuming current treatment remains in effect).
- d. A potential for savings exists if the lessor provides maintenance. Such maintenance could, however, only be provided in cities such as Anchorage, Fairbanks, Soldotna and Juneau and not in out-lying communities. Several difficulties exist related to turn around time, priority for service, hours of operation, etc. Some vendors will not provide maintenance at all.

Disadvantages:

- a. Increased yearly cost to agencies. Contacts were made with numerous vendors to obtain comparison figures which reveal that the fleet would cost substantially more under this option. Refer to Attachment 1. The substantial increase in the lease vs. SEF replacement cost is attributed to the existence of a profit margin in the lease data and the cost of lessors having to finance the leases, neither of which have a corresponding requirement in SEF costs.

- b. No savings in SEF administrative costs since the same fleet data would need to be maintained. Further, such costs may increase as periodic payments would need to be made, contracts negotiated, etc.
- c. Pool of repair cars (paid off older vehicles) would no longer be available to provide short term replacements as cars are repaired from accidents or to cover major mechanical related down time. Thus, more vehicles would need to be leased to cover the need, increasing the fleet costs further.
- d. Operating cost data necessary to effectively manage the operation of the fleet would be lost if a portion of the fleet's maintenance was performed by one or more vendors.
- e. Depending upon how the lease or leases were written, a buy-out cost of as much as 25% of the cost of the vehicles might need to be made in the final year of the lease. This would complicate the budget process as well as still require a substantial cash outlay by the state.

Lease/purchase of replacements for the SEF/HEWCF fleet units is a costly alternative that is not recommended by the Task Force. It should be noted however, that unless some amount of supplemental funding is provided the lease/purchase of replacement vehicles may be the only option available.

Agency Responsibility

This alternative changes the existing vehicle responsibility from the SEF within the DOT&PF to each user department. This change would require statutory changes to AS 44 and other related statutes.

Advantages:

- a. Such a change would eliminate past criticism of the fleet by smaller user departments.
- b. Potential savings would be available to DOT&PF as some of the fleet management and related costs were shifted to the user departments.

Disadvantages:

- a. The agencies would have to absorb the management of their portion of the current fleet. This might or might not involve transferring of SEF fleet resources to user agencies.
- b. The user agency would be forced to provide its own replacement vehicles to cover needs involved in accidents, etc. It would not have access to a pool of vehicles currently available from the combined agency needs presently addressed by the SEF.
- c. Statewide vehicle operating cost data will be lost as each agency maintains its own records.

- d. No financial savings is anticipated under the alternative and administrative costs may increase overall as each department must develop knowledge of vehicle management.

There appears to be no substantive reason for making such a change other than to provide an overly simplified response to addressing some user departments misinterpretation of the SEF and the HEWCF. Based upon the absence of justification this change is not recommended by the Task Force.

SEF/HEWCF Retention

This option involves maintaining the revolving fund concept (HEWCF) managed by the SEF under DOT&PF as is currently the case, but with some improvements. Suggested changes include a better defined and justified operating rate structure and improved communications with the executive branch, the Legislature and particularly with user departments (Task Issue #7).

Advantages:

- a. Least expensive method to obtain replacement vehicles over the long run.
- b. No disruption of the current level of service, management system or budgeting process.
- c. Knowledgeable centralized management and purchasing staff in place.

- d. Pool of repair vehicles is available to all departments.
- e. Training time/funds available are being used to refine current operations rather than introduce an entirely new system.
- f. Overall, the existing system is less cumbersome than possible lease programs.
- g. Due to having the responsibility for managing the entire fleet for the state, SEF provides volume purchases of repair parts, group shipments of vehicles and other user support.

Disadvantages:

- a. Insufficient funds exist in the HEWCF to maintain the existing fleet.
- b. The HEWCF provides an inactive substantial pool of funds that is a tempting target during periods of declining revenue.

The Task Force recommends that the current SEF and HEWCF remain in effect and that prior reappropriations from the fund be replaced to the level that would allow for the replacement of agency vehicles as scheduled.

TASK ISSUE #3

"Review current SEF organizational structure, i.e. centralization vs. regional-ization for most efficient management structure."

RECOMMENDATIONS

It is the Task Force's recommendation that no major changes to the organizational structure be made at this time. That is, the regional operations should continue to report to the M&O Directors in their respective regions and the HQ functions should continue to report to the Director of Management and Finance in Juneau. As to the location of the HQ functions, because of their statewide nature it is recommended that these functions continue to be performed out of Juneau with one exception; that exception relates to the purchasing function. Since the majority of vendors reside in Anchorage it is recommended that on a trial basis one purchasing specialist be located in Anchorage (but continue to report to HQ) in an effort to determine if additional efficiencies can be attained.

DISCUSSION

Over the past several years, the SEF has been organized in a number of different ways. In the regions, the organizations have run the gamut from the SEF Equipment Managers reporting to the SEF Director located in Juneau to Administrative Directors located in the regions to the M&O Directors which is the current organization. SEF HQ personnel have either reported to the SEF Director or Administrative Director located in Juneau (current organization).

The current organization is quasi-Regional, that is, some functions are centralized and performed in Juneau while others are performed in the regions.

The centralized operations currently include a staff of nine positions that report to the Director of Management and Finance. Their primary duties are to manage the statewide equipment program, including determining when and what equipment should be replaced, specifications writing, bidding, and contract award; setting policy by promulgating and distributing P&P's; preparing HQ budgets and overseeing regional budgets; managing the HEWCF; billing and collecting revenue; conducting excess/surplus sales; procuring lease vehicles; and developing operating and replacement rates for the equipment.

The regional staff report to the M&O Directors in their respective region and are responsible for the day-to-day operations of SEF. These include but are not limited to: provide preventative, routine, and major maintenance for all state equipment; order and procure parts; and administer SEF operations within guidelines established by HQ including assignment of vehicles, budget preparation, payment of bills, etc.

There have been a number of questions raised recently as to the effectiveness and efficiency of the current organization. Some feel that the SEF should be divisionalized as it was in the past and all SEF personnel reporting to a division director in Juneau.

In order to formulate recommendations in this area, the Task Force reviewed previous audits and reports on SEF organization. Additionally, we interviewed and solicited comments via a written questionnaire from SEF and non-SEF personnel.

The key report that was done on this subject was the Morrison-Knudsen Study that was commissioned by the department in 1983-84. The major recommendations of that study were:

- ° "Based on functional considerations it is recommended fleet function in the field be assigned to the Maintenance and Operations units at managerial parity with other M&O sections."
- ° "At the centralized headquarters level assign the fleet to the Standards and Technical Services Division."
- ° "Evaluate the benefits associated with locating the central function in Anchorage so as to best coordinate with the Department of Administration and equipment vendors who are located in Anchorage."

Only the first recommendation was followed completely. An evaluation based on the third recommendation was recently completed and one of our recommendations was taken from that evaluation.

In order to evaluate the effectiveness of the current organization and to determine if the other two recommendations could provide benefits to the SEF, the following questions were asked of fleet and non-fleet personnel:

- ° Is SEF operating efficiently and effectively under the current organizational structure?

- ° If not, can the fleet operate efficiently and effectively under the current structure?
- ° Should the regional SEF personnel report to HQ SEF?
- ° Should HQ SEF report to the Director of Management and Finance or the Director of Engineering and Operations Standards?

The only clear-cut consensus was to question 3; the overwhelming majority felt that regional SEF personnel should continue to report to regional M&O Directors. This was based on the fact that most people felt that the functions performed in the regions were of a different nature than those performed by the HQ unit and it would be more efficient to have the direction come from the individual regions.

As to the other questions, there was no clear consensus. Most felt that there were pro's and con's to each specific situation. What came out of the discussions was fairly consistent. Most agreed that no matter what the organization, the following needed to be done:

- ° The duties and responsibilities of each unit needed to be clarified and written down. Some people were unclear as to who had what authority which has caused confusion and inefficiencies.
- ° Policies and procedures needed to be followed.
- ° The HQ equipment coordinator position needed to be filled as soon as possible with a qualified individual.

- ° Staffing levels need to be addressed to insure there is sufficient qualified staff to perform the duties required. A number of people felt that the HQ unit is understaffed to perform the duties required of them. This is also apparent from reviewing the 1987 OMB Audit on the fleet.

As to the recommendation of locating the HQ functions in Anchorage, the fleet recently completed an evaluation of this concept. They talked not only to regional personnel, but also to local vendors in Anchorage. It was concluded that:

- ° HQ SEF functions as a unit and ongoing communications between the HQ sections is essential. The flow of information between the Accountant, Management Analyst, Specifications writers, C.O., etc., is essential. Moving the C.O. and specification writers to Anchorage, while addressing one problem, would create another, more serious problem.
- ° In order to maintain the HQ group unity, if any part moved to Anchorage, the entire group should go. This presents problems as the Accountant and Management Analyst functions rely heavily on other DOT&PF HQ units. Moving SEF HQ to Anchorage would require more staff to fill these voids.
- ° Too much familiarity is not good. One of the reasons vendors want ready access to the C.O. and Specification Writer is to sell their point of view. Although this is not completely bad, the possibility of influencing a decision concerning the outcome of a bid review or the way specification is written must be a consideration. Distance, and the resultant hassle free work time associated with the Juneau environment, may be a plus.

- ° The majority of the user agency contacts are located in Juneau. These are the vehicle coordinators assigned by other departments to oversee their agency's needs.

To address vendor concerns it was recommended that:

- ° A toll free number for vendors be established to Juneau.
- ° Competitor bid packages should be available in the regions for review.
- ° The intent to award letter should be fax'ed to all vendors, not just the low bidder.
- ° A purchasing specialist should be located in Anchorage on a trial basis to see if efficiencies could be gained.

These recommendations were accepted by the Commissioner and are currently in place. Additionally, a number of reorganization recommendations within HQ SEF were made and accepted. They include:

- ° Upgrade of vacant existing HQ Component, Microfilm Operator I position to Manager.
- ° Upgrade of vacant existing HQ Component, Supply Technician II position to Management Analyst II.
- ° Transfer in from SE SEF and upgrade of existing Clerk II to Accounting Clerk III.

- ° Transfer in from Interior SEF and upgrade of existing Equipment Mechanic WG IV to Accountant III.
- ° Retention of existing Automotive Equipment Coordinator position.
- ° Add a second Equipment Operations Analyst on a PFT basis as soon as an available PCN can be identified. Until then it is essential to bring on a non-permanent employee to complete the needs of the FY87-88 program in a timely manner.
- ° Utilize Non-permanent Supply Officer II to complete the needs of the FY87-88 replacement program and begin the FY89 program.

No additional funding was required to make these changes. Additionally, this reorganization should allow the HQ SEF unit to perform required duties more efficiently and effectively.

Based on the above, it is the Task Force's recommendation that no major organizational changes be made at this time. It could not be determined that any deficiencies in the SEF were caused by the organizational structure. On the other hand, if the SEF staff had clear direction as to who was responsible for what, consistent support from upper management to get the job done, and sufficient resources to do the job, then the current organization should be able to function more efficiently.

TASK ISSUE #4

"Review and suggest policy guidelines on the number and use of state vehicles."

RECOMMENDATIONS

- ° The SEF needs to take a larger role in approving vehicle replacements and evaluating vehicle utilization. Procedures should be incorporated into the replacement review process which will identify vehicles that are under-utilized or used inefficiently.
- ° The SEF should also monitor the utilization of existing vehicles on a regular basis, rather than waiting until a replacement is needed.
- ° The first two recommendations will require support from the Governor's Office to be effective. We recommend that a directive from the Governor or Chief of Staff requiring the new procedures be issued to all user agencies.
- ° When under-utilized vehicles are identified alternatives such as pooling of agency vehicles, short-term rentals, and use of employee-owned vehicles should be considered before replacing or retaining the vehicle. User agencies should be required to demonstrate why these or other alternatives would not be feasible substitutes for a low-use vehicle.
- ° The current procedure of providing credits to user agencies for vehicles turned in should be improved by implementing a system to allow credits to be carried forward beyond the current year. In addition, agencies should be required to justify the upgrade or purchase of a new vehicle using such credits.

DISCUSSION

This review focused on the following areas:

- ° Agency and SEF replacement policies and procedures;
- ° Assumption of a larger role by the SEF in approving vehicle replacements;
- ° Minimum vehicle mileage and other usage requirements;
- ° Alternatives to the retention of low-usage vehicles; and,
- ° Issuance of credits to agencies for vehicles not replaced.

Current Vehicle Replacement Policies

Under current SEF procedures, only two options are considered when vehicles used by either DOT&PF or other agencies are reviewed for replacement: (1) replace the vehicle; or (2) continue to use the vehicle if its condition and maintenance history allows. The option of removing the vehicle from the fleet is not addressed, and no review of the utilization of the vehicle is made (other than total mileage or hours of use). This type of utilization review is left up to each agency. However, it appears that most agencies do not routinely conduct this type of review either, despite the budget incentives to reduce excess costs.

Without a routine procedure for reviewing the usage level and type of use for individual vehicles, there could be a significant number of vehicles which are underutilized and adding unnecessary costs to the state's equipment budget. Not enough information is readily available to determine the full extent of this potential problem, but it is clear that good

management of the vehicle fleet requires some type of regular evaluation and monitoring of vehicle usage. This is especially true as the size of the state workforce declines and agencies are reorganized or assume different responsibilities.

Expanding the Role of the SEF in Vehicle Replacements

The current state statues regarding SEF appear to grant the agency the authority to approve or disapprove vehicle replacements. However, the SEF has never exercised this authority, other than by extending vehicle lives, and a tradition of user agency autonomy in this area is firmly established. If the SEF is to assume a stronger role in evaluating vehicle utilization and replacements, some type of directive from the Governor's Office to all user agencies will probably be necessary to accomplish this change. The Governor's Chief of Staff has previously stated his support for justification of vehicle replacements.¹

Additional staff support for the SEF may also be necessary if the SEF is to undertake additional responsibilities in reviewing vehicle utilization. The existing staff is already fully occupied in keeping up with the routine operations of the fleet. The added staff cost would probably be more than offset by reductions in vehicle operating and replacement costs.

An alternative approach would be to require each user agency to conduct its own regular review of vehicle utilization. While this approach might be more popular with user agencies, DOT&PF would probably be able to

¹ Memorandum to Mark Hickey from Garrey Peska, 12/1/87.

accomplish this task more objectively and consistently. User agencies should be encouraged to evaluate the utilization of their vehicles and to not replace under-utilized vehicles, but giving final authority over this type of review to user agencies would be similar to having agencies conduct their own audits.

In addition to reviewing vehicle utilization when replacement is due, the SEF should also monitor vehicle usage on an ongoing basis. The Equipment Management System (EMS) could be modified to produce an exception report when vehicles are used less than a certain number of miles or hours per month or year. If a vehicle fell below this minimum use level, it would not necessarily be removed from the fleet, but user agencies could be required to explain why the vehicle was used infrequently.

Vehicle Utilization Factors

The variables which could be included in a periodic vehicle utilization review include: mileage driven or hours of operation per year and per month, number of days of use per year, number of users per vehicle, and type of use, i.e., transportation, maintenance. This review would need to consider special needs for seasonal vehicles, which may accrue relatively few miles per year, but which are used intensively during the summer or winter months.

Alternatives to Low-Usage Vehicles

The vehicle utilization review should also consider alternatives to the retention or replacement of a vehicle that is used infrequently. In some cases, such as for certain emergency and safety vehicles or specialized equipment, there would be no practical alternatives to continued state ownership of the vehicles, even though the vehicles have low utilization.

However, for other uses, such as routine employee transportation, short-term vehicle rentals or pooling of vehicles among agency divisions may provide valid alternatives to keeping low-use vehicles. The use of vehicle pooling could be facilitated by designating a person in each agency to coordinate vehicle assignments and usage. Another alternative for routine transportation would be to encourage the use of privately owned vehicles, with reimbursement to vehicle owners for mileage driven on state business. This approach could be substantially less expensive than maintaining a vehicle that is used infrequently or seasonally.

The number of vehicles available for use by any agency ("R class" vehicles) could be increased as the number of agency vehicles is reduced to provide a cushion for peak needs or user agencies.

Under current SEF policies, agencies can receive a credit for the replacement fees paid on vehicles which are no longer needed and are turned in. This credit can be applied to the upgrade of another vehicle which is being replaced or the purchase of a different vehicle which is needed by the agency. However, the credit must be used in the same year it is

received, because the SEF does not have a system in place for tracking these credits over a multi-year period. Establishing a system which would allow agencies to carry forward credits to future years would increase the incentive to turn in under-utilized vehicles and avoid the "use it or lose it" situation which now applies to replacement credits. In addition, agencies should be required to justify the upgrade or purchase of a new vehicle.

See attachment #2, dissenting opinion by Frank Allan, Administrative Officer, Department of Public Safety.

TASK ISSUE #5

"Review effectiveness of current rate structure for both the replacement program and operations. Recommend necessary changes."

RECOMMENDATIONS

SEF should review the current rate structure, both operating and fixed, to establish rates that will allow for the collection of sufficient revenues to replace and operate essential equipment. Fixed and operating costs must be based on acquisition costs and actual operating costs and should be reviewed and adjusted yearly. Formulas should be simple and computerized for ease of calculation. Anticipated rates need to go to users early in the fiscal year to allow them to budget accordingly. To the extent possible, rates should not be influenced by political pressure.

DISCUSSION

The primary purpose of the SEF is to procure and maintain essential state owned equipment as mandated by statute and regulations. To do this, the SEF collects revenue from user groups in the form of fixed fees and operating fees. Fixed fees are the monthly rental charges that provide for replacement of worn out equipment. These fees are based on replacement costs, expected vehicle/equipment life and estimated salvage value. Fixed fees are established for each equipment class and applied to all vehicles in that class. The operating or usage fee is used for the maintenance of equipment. It is based on analysis of past

practice, use of a particular class of vehicle and historical service cost. Operating fees are charged on a per hour/mile of reported usage with some exceptions for equipment attachments.

The recently completed OMB audit on the SEF management procedures reviewed the rate structure area. The Task Force recommendations came predominantly from that review.

OMB found that:

In 1985 the SEF reviewed fixed rates and determined that they could be reduced. This review included past spending levels for the replacement program. The SEF also reviewed the procedure used to estimate expected vehicle life. As a result, the SEF changed the fixed rates.

In FY86, the SEF reduced fixed fees by an average of 21 percent. At the same time, the expected vehicle life was also increased. Rate changes resulted not only in reduced user cost, but also diminished revenue available for vehicle replacement. Rates in FY87 were further reduced.

In August 1986, the Governor ordered major reductions in all operating budgets using general funds. The HEWCF was not considered a general fund but its revenues came from other state agencies general fund budgets. DOT&PF decided to further reduce the FY87 fixed rates by another 49 percent as a one-time help to reduce agency operating budgets. This decision coupled with the original reduction, amounted to an average reduction of 55.7 percent below FY86 rates.

This decision changed the foundation for establishing rates. Instead of rates based on the criteria discussed previously, rates in FY87 reflected the need to reduce agency budgets. The new rates no longer bore any relationship to vehicle replacement costs.

The FY88 rates reflect the decision to maintain low user budgets. Although FY88 rates were raised by an average of 47.1 percent, the FY88 rates still average 48.7 percent less than the rate in FY85.

DOT&PF has not made any changes to usage fees in three years. While fixed rates were declining, usage fees remained stable. The many variables that are used to determine rates have changed over the years. With the aging experienced by the fleet, average maintenance costs can also change.

Based on those findings, OMB recommended that "DOT&PF should establish a rate structure that will provide the HEWCF with sufficient revenue to enable the replacement of essential equipment and encourage efficient vehicle usage."

It has been over a year since OMB issued its findings and recommendations. There has been a fixed fee rate adjustment in FY89 and there is a proposed operating rate adjustment in FY90. These adjustments were based on the most current information available to the SEF. They were not calculated using a set formula that can be consistently applied. It is still recommended that SEF review this area and set rates based on an accepted formula that can be consistently applied and will ensure efficient vehicle use, needed equipment replacement, and protection of the current investment. Additionally, the rates should be adjusted annually with users being informed as soon as possible about a potential rate adjustment. Political pressure should not influence the setting of rates.

TASK ISSUE #6

"Review effectiveness of billing and accounts receivable process including the use of EMS and suggest improvements."

RECOMMENDATIONS

- ° Provide a one-entry system for vehicle use in EMS that would be entered by field personnel at some appropriate level, verified at the user agency level, by SEF and then read by AKSAS to produce billing. This would involve a refinement of the EMS/AKSAS interface work presently being considered. It is estimated that such a change would handle operating costs (based upon mileages) and replacement costs (based upon the identification numbers of the vehicles incurring the mileages). This process is estimated to cover 80% - 90% of the total funds received by the HEWCF. Only special billing for items such as repairs to dry vehicles, etc. would not be covered by this change in procedures.
- ° Modify EMS to include "inception-to-date" data on vehicle replacement costs. Add a field to EMS that would keep a running total of costs per vehicle each month from the date of initial assignment through the current date.
- ° Corrections should be acknowledged either by a phone call or note. Changes made would thus be confirmed, and changes denied could be discussed and a mutual resolution be determined.
- ° Either pro-rate costs by the half-month, or do not charge the final month replacement cost for the replaced vehicle.

- Billing each component for actual usage would be ideal. There would need to be clear communication between SEF personnel and the users when this would be initiated so that users would not deny charges on the basis of duplicate billings (same vehicle in two components).
- If costs were pro-rated, the partial amount charged would be an automatic flag that the vehicle had been turned in (or whatever the specific case might be).
- Similar to the first recommendation, mounds of work and significant clerical time would be saved if the number of operations could be cut.
- Some class rates vary from DOT&PF region to region (i.e., A152P). If the class code could be an automatic change when the department user code is changed, this problem would be eliminated. Ideally, EMS could be modified so that all class codes and department user codes would have to begin with the same letter, or would not be accepted in the system.
- A modification of EMS so that the status code would be changed automatically on the appropriate date would save a lot of record keeping and correspondence.
- Runs should be distributed at regular intervals, or at least be made available so users would know what procedure to follow in order to request current inventory runs when they are needed.
- Current month billing for both types of costs would be beneficial to users.

DISCUSSION

A review has been made of the effectiveness of the HEWCF billing system and the collections process. The review has indicated that the system is inefficient and that extensive duplication of effort exists. The following specific shortcomings have been identified (the numbering of these shortcomings corresponds to the recommendations listed above):

- (1) Data relative to the usage of vehicles is handled several times within each user agency and then several times by SEF personnel to generate the billings and again by the user agency personnel in reconciling the billing back to the original usage data. This is a textbook example of bureaucratic duplication of effort that is costly both to the agencies and to the SEF.
- (2) When the EMS system was put in place the "inception-to-date" (not year-to-date) accumulation of replacement costs was one of the items of information that was not retained. This had been an item of data that existed in the pre-EMS data retention system which was a useful tool in determining vehicle replacements. SEF needs some way to determine total costs incurred per vehicle (not just current fiscal year). Inception-to-date in addition to (not instead of) year-to-date figures would be most helpful when considering replacing vehicles.
- (3) When corrections are requested, users do not see a subsequent document allowing or denying their requests. If these requests were acknowledged by correspondence or even over the phone, users could know the status of the changes without having to take the time to continue to check EMS at regular intervals. In many cases, users find that the changes are not made and the same requests must be made on the subsequent billing.

- (4) Replacement costs are not pro-rated when a new or additional vehicle is assigned, even though users have been told pro-ration is possible. There are cases when users have been charged a full month's replacement cost for the replaced vehicle in addition to the replacement vehicle.

- (5) Operating costs are not split if a vehicle is re-assigned during the month. For instance, a vehicle shows 1000 miles usage on the 15th, and is transferred from "B" Detachment to Anchorage JS - at month's end the car shows 2000 miles usage. One billing code is billed for the total usage.

- (6) Lack of pro-rating affects vehicle count. When one vehicle replaces another, the old one remains on the report to be charged final usage and the new one is added. This also results in replacement costs for two cars as described in #2.

- (7) If users could enter their own usage, bills would be paid much sooner. Presently users enter the mileages in their PC to generate monthly vehicle reports. Those reports are then sent to each DOT&PF region for data entry. Once the regions have the information entered, SEF HQ notifies them that they can check their usage through an EMS function. Users are given approximately two weeks to check. Then the bills are printed in Juneau and sent to them. Users then reconcile the billings, and process for payment through the Dual Authorization function of AKSAS. If users could make the initial entry for monthly usage of their vehicles with the Dual Authorization function, literally weeks of work and much clerical staff payroll could be saved. SEF could have their money at least a full month sooner.

- (8) When a vehicle is transferred from "A" Region (DOT&PF) to "B" Region (DOT&PF), for example, the department user code will be changed in EMS, but the class code is not. This should be automatic, or at least obvious that the change needs to be made.

- (9) There should be a faster, more convenient manner for changing status to WZ/DZ. Presently users keep a manual listing of each vehicle and the date it is to be converted to the "Z" Class. Users send a monthly list to notify each DOT&PF Region which cars are scheduled for class change in the coming month. It would be faster and more convenient if a feature could be added to EMS that would make these changes automatically.

- (10) If users received an inventory run at regular known intervals, they could eliminate some of their correspondence to DOT&PF. Such a run would be helpful in many areas.

- (11) Presently users are billed for March usage and April replacement costs. (The usage is current month; replacement costs are in advance.) We submit that if these were billed for the same month less errors would occur; hence, less time for correction request forms, etc. Problems could be lessened, particularly the last month of the fiscal year.

- (12) Replacement costs are not high enough. At the end of the scheduled vehicle life, there will not be enough replacement costs paid to replace that same class vehicle. Potential problems created as a result are many and could be serious.

TASK ISSUE #7

"Address and develop communication plan which will allow user groups to keep informed on SEF operations."

RECOMMENDATIONS

Communications need to be improved from the SEF HQ's to both regional SEF staff and user agencies. The Task Force recommends that regional SEF offices receive reading file updates, and possibly a newsletter, which could be passed on to user agencies apprising them of SEF policy updates and information relating to vehicle usage. As the main contact point for user agencies, the regional SEF staff needs to be familiar with all SEF policies and procedures. We also recommend that an Annual Fleet Report be established to provide comprehensive information on the SEF to users.

DISCUSSION

An improved flow of information to regional SEF offices and user agencies on SEF policies, rates and other issues would enhance efficient management of the fleet and increase the satisfaction of users with SEF operations. At present, many SEF users are uncertain about SEF policies and procedures, particularly the establishment of operating and replacement rates. An Annual Fleet Report, and possibly a newsletter, could be the basic elements of a communication plan.

The Annual Fleet Report should be distributed to all user agencies, as well as OMB. The report would contain a brief Executive Summary covering the main points and a much more detailed report for those interested. The first report would probably be much more detailed than subsequent reports, because it would need to discuss the history of the fleet and how it developed into what we have now.

Specifically, the first report would include the following items:

1. Executive Summary
2. History/Concept of the State Equipment Fleet
3. Current Status of the fleet
4. Fund Financial Analysis
 - a) Rate Supporting Calculations, both Operating and Replacement
5. SEF Organization
 - a) Services Provided
6. Equipment Management System
7. Goals and Objectives of the fleet

If a subsequent major event, such as a rate change, took place, an amendment to the report could be made. The report should contain an in-depth analysis of the rates that are going to be charged in the next budget preparation cycle. This would answer in advance most of the questions asked by budget analysts and would eliminate a major source of dissatisfaction among SEF users.

The Annual Fleet Report would provide a one-stop reference for any administrator or legislator who wishes to obtain an understanding of the fleet.

State Equipment Fleet Task Force
Lease/Purchase Cost vs. Highway Equipment Working Capital Fund Cost
Yearly Costs

The following vehicles are representative of the types of vehicles utilized by state agencies. Lease estimates were obtained from more than one potential vendor in each case. The HEWCF replacement rates are those used in the FY89 budget.

Class	Description	Lease/ Purchase	HEWCF	Difference (HEWCF savings)
=====				
108	Intermediate Sedan	3,914	1,584	2,330
115	Police Interceptor	5,958	3,576	2,382
152	4x4 Vehicle (Blazer type)	5,506	2,964	2,542
154	4x4 Pickup	5,080	2,364	2,716
217	8 Cy Dump truck with snow plow and full hydraulics	19,536	15,804	3,690
338	3 1/2 Cy Loader	21,000	16,032	4,968
351	14,000 lb Grader	12,504	6,672	5,832

Conclusion - Potential leased vehicle rates are over 33% higher than HEWCF rates.

TASK ISSUE #4

"Review and suggest policy guidelines on the number and use of state vehicles."

Do Not Concur:

The policy should simply be that the departments determine the number and use of their vehicles based on their operational needs and their budget capabilities. The state pays senior executives to manage their departments and we should not arbitrarily limit their use of resources.

I take strong objection to the current first recommendation in the draft of the final report which notes in part "The SEF needs to take a larger role in approving vehicle replacements...." While I cannot speak for other departments, I am comfortable with the current review process that is made of the DPS fleet requirements which consists of independent condition and mileage review by representatives of both DPS and the SEF. During a meeting of the representatives of both departments it is determined if the vehicle should be extended or replaced. At that time it is determined if the vehicle is to be retired or reclassified into an 'L' car (recycled patrol vehicle for less critical duties - they have replaced many cars formerly leased for administrators). There is no problem as noted in the report that the vehicle's continued use is not addressed. This first recommendation is addressing a perceived problem that I do not believe exists. The report even notes that "Not enough information is readily available to determine the full extent of this potential problem...." If this is correct, which I believe it is, then how can the Task Force make a recommendatio.. until a sufficient amount of information is made available and appropriately analyzed?

I do agree with the remaining recommendations under Task Issue #4 dealing with monitoring the utilization of existing vehicles, identifying under-utilized vehicles and providing credits for vehicles turned in, but I strongly believe that a close liaison with user agencies is critical. If users are dictated to regarding replacement determination and use they will be reluctant to endorse the SEF and its support will be eroded further.

In conclusion, my concern is primarily that the Task Force recommendation proposes to limit users agency participation in the determination of their fleet needs and to shift this authority to the SEF. I do not find this recommendation acceptable from a user management point of view.

PETITION

TO THE STATE OF ALASKA:

The Statewide Alaskan automotive and equipment business community members once again are requesting that the Department of Transportation, Public Facilities address their responsibilities to the Alaskan constituency and state agencies.

We request that the State Equipment Fleet Headquarters be transferred to Anchorage, Alaska.

JUSTIFICATION

1. Stop needless travel in and out of Juneau. Curtail ineffective user and constituent communications. Prevent lost productivity of Juneau personnel. Eliminate per-diem and travel expense.
2. Eliminate questionable procurement and award practices and procedures which continue to increase at an alarming rate. (Reference Federal procurement regulations C.F.R. 41 and concurrent comptroller general case rulings which were the basis for State title 36.)
3. Gain centralized management to service and respond to the majority of the user agencies and statewide agencies.
4. Eliminate lost productivity of all state agencies due to untimely equipment replacement. This will result in safe and cost effective state programs.

1. GARY SCHADE 301 Post Anchorage Alaska Truck Center
 Name Address Company Name

2. Al Benk 100E 2nd Apt Rd Anchorage Alaska General Truck
 Name Address Company Name

3. Jim Strong 1950 E Bowling Rd Trailer Craft Inc.
 Name Address Company Name

4. Steve Hummel 2701 E. MH Village Wasilla Top Frontiers Ford
 Name Address Company Name

5. Richard M VanPeterson 4517 1st St Anchorage VanPeterson Const. & Mgmt
 Name Address Company Name

6. Ed Decker 105 Post Rd. Anchorage Firststone
 Name Address Company Name

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1. Charles C. Parker 1702 Ship Ave. Sahlberg Equipment Inc.
Name Address Company Name

2. John P. Snow 733 E. Whitney Rd Craig Taylor Equip. Co
Name Address Company Name

3. Louis E. Fessler 2400 Commercial Dr Fessler Equip SER INC
Name Address Company Name

4. Glenn R. Coakley 2618 Commercial Dr Commatus NW Inc
Name Address Company Name

5. Louis P. Rubin 2756 Commercial Dr, 99501 Howard Coopers Comp.
Name Address Company Name

6. Louis E. Fessler 2536 Commercial Dr. ⁹⁹⁵⁰¹ TO TEM EQUIP SUPPLY, INC.
Name Address Company Name

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4. Eliminate lost productivity of all state agencies due to untimely equipment replacement. This will result in safe and cost effective state programs.

1. [Signature] 1955 GAMBELL Worthington Ford
Name Address Company Name

2. [Signature] 2838 PORCUPINE DRIVE ANCH. KENWORTH ALASKA
Name Address Company Name

3. [Signature] 5400 HOMER DR. SE Construction Machinery
Name Address Company Name

4. [Signature] 6730 ARCTIC BLVD TOPK EQUIP CO.
Name Address Company Name

5. [Signature] 3222 Commercial AK Mining & Diving Supply
Name Address Company Name

6. [Signature] 4510 GAMBELL NORTHEAST HYDRAULICS LTD.
Name Address Company Name

PETITION

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2. Eliminate questionable procurement and award practices and procedures which continue to increase at an alarming rate. (Reference Federal procurement regulations C.F.R. 41 and concurrent comptroller general case rulings which were the basis for State title 36.)
3. Gain centralized management to service and respond to the majority of the user agencies and statewide agencies.
4. Eliminate lost productivity of all state agencies due to untimely equipment replacement. This will result in safe and cost effective state programs.

1. John Walsh 11636 E. 1ST AVE. 1ST STREET BODY
Name Address Company Name

2. John Runt 5811 OLD SEWARD AK. RUBBER 'SUPPLY INC.
Name Address Company Name

3. Scott D. Matthews 1301 HOFFMAN RD WAUKESHA ALASKA
Name Address Company Name

4. Paul T. Scoville P.O. Box 91418 Ind. Boiler & Castles Inc
Name Address Company Name

5. Don Richmond 405 BONIFACE DJ'S ALASKA RENTALS, INC
Name Address Company Name

6. Jaime M. Stearns 1716 Post Rd. JACKSON TUL & CONST. SUP.
Name Address Company Name

PETITION

TO THE STATE OF ALASKA:

The Statewide Alaskan automotive and equipment business community members once again are requesting that the Department of Transportation, Public Facilities address their responsibilities to the Alaskan constituency and state agencies.

We request that the State Equipment Fleet Headquarters be transferred to Anchorage, Alaska.

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1. R. Stewart 2820 Commercial DENALI BLDG INC
 Name Address Company Name

2. Tacoma City 342 W. CHIPPERFIELD GOODYEAR COMM. TIRE & SERVIC
 Name Address Company Name

[Signature] 3200 SEWARD HWY ALASKA AUTO PRESERVAT
 Name Address Company Name
 (FLEET MANAGER)

4. Alan J. Leach 4748 Old SEWARD HWY. # ANCH MISSAID/JEEP/EAGLE
 Name Address Company Name
 166 E. POTTER ANCHORAGE AK

5. Larry Bates 2610 E. 144TH CADILLAC PLASTIC
 Name Address Company Name

6. James M. Drake 1800 W 47TH DITCH WITCH OF AK
 Name Address Company Name
 ANCH, AK 99517

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- | | | | |
|----|--------------------------|---------------------------------|-------------------------------|
| 1. | <u>Tony S. Daggett</u> | <u>6030 Old Seward Hwy</u> | <u>Anchorage Small Engine</u> |
| | Name | Address | Company Name |
| | | (SALES MANAGER) | |
| 2. | <u>W. Mark Landis</u> | <u>730 E 5TH AVE</u> | <u>STEP PROS.</u> |
| | Name | Address | Company Name |
| 3. | <u>Roger W. Plattner</u> | <u>4109 Old Seward Hwy</u> | <u>Alaska Battery Mfg.</u> |
| | Name | Address | Company Name |
| 4. | <u>Henry</u> | <u>821 E 5TH AVE</u> | <u>NYE Frontier Toyota</u> |
| | Name | Address | Company Name |
| 5. | <u>J. H. ...</u> | <u>4940 OLD SEWARD</u> | <u>CONT. MTR. CO.</u> |
| | Name | Address | Company Name |
| 6. | <u>Deegan Hunt</u> | <u>4904 Old Sew. Hwy</u> | <u>Pacific Mitsubishi</u> |
| | Name | Address | Company Name |

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1. William A. Damm 2192 VIKING DR. Alaska Industrial Hardware
Name Address Company Name

2. Francis Thibodeau 2402 E. 3rd Ave. N.W. Handling Systems
Name Address Company Name

3. [Signature] 1200 West International Alaska Diesel Electric
Name Address Company Name

4. [Signature] 6131 A St KEM EQUIPMENT, INC.
Name Address Company Name

5. [Signature] 6230 A St. Independent Lift truck of Ak.
Name Address Company Name

6. [Signature] 40 E. 10th Alaska Diesel Service Inc.
Name Address Company Name

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500 WEST POTTER DR.

- | | | | |
|----|------|---------------------------------------------|------------------------------|
| 1. | | 500 WEST POTTER DR. | AK HYDRA44ICS |
| | Name | Address | Company Name |
| 2. | | Anchorage AK
5214 E. 147 th | Drive Lane Serv? |
| | Name | Address | Company Name |
| 3. | | Anchorage 99501
832 54 th Ave | American Tex |
| | Name | Address | Company Name |
| 4. | | Anch, AK 99501
467 Chipperfield Rd | Prescott Equipment Co., Inc. |
| | Name | Address | Company Name |
| 5. | | 2700 Pioneer Dr
Anchorage, AK 99501 | Anchorage Auto & Welding Inc |
| | Name | Address | Company Name |
| | | 3038 RAMPART
Anch AK. 99501 | Automatic Welding |
| | Name | Address | Company Name |