FAS’s Office of Fleet Management in the Pacific Rim Region Did Not Comply with California State Emissions Regulations, Resulting in a $485,000 Fine

Report Number A170040/Q/5/P18002
April 19, 2018
Executive Summary

FAS’s Office of Fleet Management in the Pacific Rim Region Did Not Comply with California State Emissions Regulations, Resulting in a $485,000 Fine
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Why We Performed This Audit

We performed this audit at the request of FAS management, based on management’s concerns over the internal control environment of the Office of Fleet Management (Fleet) operations in the Pacific Rim Region. Our audit objective was to determine whether FAS’s Pacific Rim Region Fleet had adequate controls to ensure compliance with applicable laws and regulations related to vehicle emissions standards.

What We Found

GSA was fined $485,000 by the Environmental Protection Agency because FAS’s Fleet in the Pacific Rim Region did not correctly evaluate the impact of the California Truck and Bus Regulation emissions standards on its fleet and as a result, did not take the necessary steps to ensure compliance. GSA did not have controls in place to ensure compliance with applicable laws and regulations. Furthermore, Fleet did not follow its own policy requiring coordination with state and local officials to ensure that FAS Fleet meets emission program standards. If the Pacific Rim Region Fleet had established adequate processes to ensure that vehicles were accurately tracked and taken the proper safeguards to ensure compliance, this fine could have been avoided.

What We Recommend

We recommend that the FAS Commissioner direct the Office of Fleet Management to:

1. Ensure management adheres to recently issued policy related to new or updated laws and regulations. This may include establishing action plans and consulting with legal counsel to proactively address changes in laws and regulations.

2. Assess whether the Fleet Management System meets current and future needs to track vehicle information related to emissions standards compliance effectively. This assessment should include, at a minimum, an evaluation of data integrity in the Fleet Management System, including vehicle weight and location.

The FAS Commissioner agreed with our audit recommendations. GSA’s written comments are included in their entirety in Appendix B.
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Introduction

We performed an audit of the internal controls of FAS’s Office of Fleet Management (Fleet) in GSA’s Pacific Rim Region to ensure compliance with applicable laws and regulations related to vehicle emissions standards.¹

Purpose

We performed this audit at the request of FAS management, based on their concerns over the internal control environment of Fleet operations in the Pacific Rim Region.

Objective

Our objective was to determine whether FAS’s Pacific Rim Region Fleet had adequate controls to ensure compliance with applicable laws and regulations related to vehicle emissions standards.

See Appendix A – Scope and Methodology for additional details.

Background

GSA’s Fleet Program provides vehicles and fleet management services to over 75 participating federal agencies. Fleet’s mission is to provide safe, reliable, low cost vehicle solutions assisting its customers to meet their mission requirements effectively and efficiently. Fleet services include vehicle acquisition and disposal, maintenance control and accident management, fuel and loss prevention services, and a fleet data management system. Since its start in 1954, the program has grown to over 214,000 vehicles.

Fleet currently has 36 Management Centers throughout the country. Each Fleet Management Center is supported by Fleet Service Representatives who assign Fleet vehicles and provide fleet management support to customers. Agencies wishing to lease vehicles from Fleet contact their respective Fleet Management Center. Customers can choose from a large, diverse fleet consisting of sedans; buses and ambulances; light, medium, and heavy-duty trucks; and passenger vans. This allows customers to tailor their fleet to fulfill each agency’s mission. Leasing through Fleet also allows customers to obtain modern vehicles, with the average vehicle age being 3.2 years.

GSA has developed minimum replacement standards that specify when vehicles are eligible for consideration for replacement. GSA’s standards are in addition to minimum federal replacement standards found in the Federal Management Regulation (FMR). Like the FMR standards, the GSA standards authorize

¹ The Pacific Rim Region includes Arizona, California, Hawaii, Nevada, American Samoa, Guam, and portions of the Far East.
vehicle replacement after a certain number of years or miles, depending on the class of vehicle, or if a vehicle were approved as uneconomical to repair; that is, it would cost more to repair than to replace it. For example, non-diesel passenger vehicles are eligible for replacement after 3 years and 36,000 miles. However, a medium-duty diesel truck is not considered for replacement until 10 years or 150,000 miles. Central Office Fleet officials informed us that, for the most part, GSA Fleet voluntarily applies its own more stringent vehicle replacement criteria in requiring its vehicles to be used even longer or driven even more miles than the FMR dictates prior to replacement. This is done to maximize value for the taxpayer.

Notwithstanding these longer holding periods, laws and regulations related to vehicle emissions standards are constantly changing, and GSA vehicles could be subject to these changes. GSA advises its Fleet customers to contact their Fleet Service Representative to determine which requirements apply to them. The Fleet Service Representatives are responsible for knowing which requirements apply to the customers in their region. One significant regulation is the Clean Air Act, which was designed to protect public health and welfare and to regulate emissions of hazardous air pollutants. The 1970 amendments to the act required every state to establish and achieve National Ambient Air Quality Standards by 1975.

In an effort to meet Clean Air Act goals, all states are required to adopt state implementation plans outlining the implementation, maintenance, and enforcement of air standards. Pursuant to the Clean Air Act, once the Environmental Protection Agency (EPA) approves a state implementation plan, the state plan becomes federally enforceable.

On December 14, 2011, after a process lasting over 3 years, the California Air Resources Board amended the California Code of Regulations to create the Truck and Bus Regulation. Prior to EPA approval, the regulation went out for public comment. The regulation was then incorporated into California’s state implementation plan on May 4, 2012. On that date, it became enforceable on all applicable diesel vehicles operated in California, including those owned by federal agencies.

The Truck and Bus Regulation applies to diesel trucks and buses that are privately or federally owned having a manufacturer's gross vehicle weight rating (weight) greater than 14,000 pounds. It requires Fleet owners to meet specific standards for reducing emissions of oxides of nitrogen and diesel particulate matter. Fleet owners had two main compliance methods: installing a diesel particulate matter filter or upgrading to a 2010 model year emissions equivalent engine. Pacific Rim Region Fleet officials did not pursue the compliance option for installing diesel particulate matter filters due to cost, warranty, and safety concerns.

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2 Gross Vehicle Weight Rating is an upper limit, a constant figure, for how much a vehicle can hold, including passengers and cargo. It can vary by manufacturer for the same vehicle and by whether the vehicle has been upfitted or customized. Although there are differing measures for weight, for purposes of this report, “weight” refers to Gross Vehicle Weight Rating.
Compliance with regulations is a critical component of an organization’s internal control environment. The Government Accountability Office’s (GAO’s) *Standards for Internal Control in the Federal Government* (Green Book), identifies the following objectives for establishing an effective internal control system: (1) operations – effectiveness and efficiency of operations; (2) reporting – reliability of reporting for internal and external use; and (3) compliance – compliance with applicable laws and regulations. The Green Book also states that “As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.”

Additionally, the July 15, 2016, Office of Management and Budget’s (OMB’s) Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, requires federal leaders and managers to establish compliance with pertinent laws and regulations, determine and address risks, and implement controls to fulfill that compliance. OMB Circular A-123 further states that, "Agencies are ultimately responsible for the services and processes provided by third party service organizations as they relate to the Agency’s ability to maintain internal control over operations, reporting, and compliance with laws and regulations."

Accurate vehicle data is also a critical component of internal control, as required under GAO’s Green Book. Specifically, Principle 13 of the Green Book states that management should use quality information to accomplish the entity's objectives. This includes properly identifying information requirements, using relevant data from reliable sources, and processing data into quality information. Specifically, in order to ensure the use of relevant, reliable data, management should evaluate both internal and external sources of data for reliability.

On May 5, 2016, Pacific Rim Region Fleet officials received a request for fleet information from the EPA. This request required GSA to report on the compliance of its fleet with California’s Truck and Bus Regulation. Subsequently, the EPA issued a Notice of Violation to GSA dated September 21, 2016, for violations of the Clean Air Act. As a result of the Notice of Violation, FAS requested that we review the Pacific Rim Region Fleet’s plan to comply with the regulation, how that plan was executed, and where it failed. FAS also requested that we analyze Fleet’s overall process for managing changes in applicable laws and regulations.

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3 GAO’s *Standards for Internal Control in the Federal Government*, September 2014.
Results

GSA was fined $485,000 by the EPA because FAS’s Fleet in the Pacific Rim Region did not correctly evaluate the impact of California’s Truck and Bus Regulation emissions standards on its fleet and as a result, did not take the necessary steps to ensure compliance. GSA did not have controls in place to ensure compliance with applicable laws and regulations. Furthermore, Fleet did not follow its own policy requiring coordination with state and local officials to ensure that FAS Fleet meets emission program standards. If the Pacific Rim Region Fleet had established adequate processes to ensure that vehicles were accurately tracked and taken the proper safeguards to ensure compliance, this fine could have been avoided.

Finding – FAS’s Office of Fleet Management in the Pacific Rim Region did not comply with California State Emissions Regulations, resulting in a $485,000 fine.

As described earlier, on May 4, 2012, the State of California implemented the Truck and Bus Regulation, which required diesel vehicles weighing over 14,000 pounds to reduce emissions. Fleet owners had two main compliance methods for affected vehicles: install a diesel particulate matter filter or replace the vehicle to include a 2010 model year emissions equivalent engine.

The Truck and Bus Regulation’s replacement option is more stringent than both GSA’s replacement schedules and FMR requirements. For example, the GSA standards authorize replacement of a model year 2006 truck after 12 years or 250,000 miles, resulting in potential replacement by 2018. The FMR authorizes replacement of a model year 2006 truck weighing over 26,000 pounds after 9 years, or 80,000 miles, resulting in potential replacement by 2015. However, in order to comply with The Truck and Bus Regulation through replacements, GSA would have had to replace a model year 2006 truck, weighing over 26,000 pounds, after only 7 years of service, or by January 1, 2014, if the truck was not retrofitted with a diesel particulate matter filter.

Pacific Rim Region Fleet officials were aware of the Truck and Bus Regulation and its requirements. According to Pacific Rim Region Fleet officials, they attended a town hall meeting and learned about the implications of the regulation prior to its implementation. In addition, Pacific Rim Region Fleet officials also informed us that they held meetings with Central Office Fleet to discuss the requirements of the Truck and Bus Regulation.

Because the dates of the Truck and Bus Regulation conflicted with FMR requirements, Pacific Rim Region Fleet officials determined that they should comply with FMR standards. Pacific Rim Region Fleet officials believed that the FMR requirements were minimum replacement standards and that the vehicles could not be replaced prior to the applicable FMR dates. As a result, they followed the FMR replacement cycle for vehicles. However, Pacific Rim Region Fleet officials did not develop a new plan for compliance other than accelerating vehicle replacement with additional funding from Central Office Fleet.
Pacific Rim Region Fleet did not correctly evaluate the applicability of the Truck and Bus Regulation vehicle replacement options as compared to the FMR. GSA and all other federal fleets in California were subject to the requirements of the Truck and Bus Regulation. Under the Clean Air Act, the federal government had waived sovereign immunity and as a result, federal agencies must adhere to state air quality regulations, such as the Truck and Bus Regulation. Central Office Fleet officials informed us that, at the time, Fleet was not aware the federal government had waived sovereign immunity under the Clean Air Act and that they were subject to the Truck and Bus Regulation. Further, Fleet did not get a legal opinion regarding its own obligations under the Truck and Bus Regulation until May 2017.

On May 5, 2016, GSA's Pacific Rim Region Fleet Director received a certified Request for Information from the EPA related to compliance with the Truck and Bus Regulation. However, the Pacific Rim Region’s efforts to respond to EPA’s request for information about the affected vehicles were hindered by the fact that Fleet did not systemically identify vehicles affected by the Truck and Bus Regulation requirements. As described earlier, the regulation had specific replacement dates for vehicles based on engine model year and weight. For example, the regulation required that vehicles over 26,000 pounds, with a model year before 1994, had to be upgraded to a 2010 model year engine by January 1, 2015. If, at the time the regulation went into effect in May 2012, Fleet had started tracking vehicles subject to the Regulation by model year and weight, noting vehicle replacement dates, Fleet would have known its compliance status in real time.

In response to EPA’s request, the Fleet Director submitted information to EPA on all applicable vehicles that were in use at some point between the May 4, 2012, effective date of the regulation and the May 5, 2016, request date. Fleet developed its response using information from the Fleet Management System (FMS) database and submitted the response to EPA. Based on this initial response, the EPA sent GSA a Notice of Violation dated September 21, 2016. The Notice of Violation listed 281 applicable vehicles that, according to GSA, were in use and had recorded mileage in California after the regulation went into effect. According to the EPA, these vehicles had not satisfied the compliance options and thus were in violation of the regulation.

However, the response submitted to EPA was not accurate. The Pacific Rim Region Fleet updated its original response to the EPA’s Notice of Violation three times: in November 2016, December 2016, and finally in May 2017. These updates were primarily due to inaccurate data or the lack of historical data in FMS and resulted from over- or under-reporting of vehicles subject to the Truck and Bus Regulation. The inaccurate or missing historical data was primarily related to the reported vehicle location and vehicle weight as discussed below:

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4 Fleet was reorganized from 11 regional fleet divisions into 4 zonal offices in June 2015. California was part of the Pacific Rim Region. The former Pacific Rim Region is now part of Zone 4. However, EPA’s correspondence was addressed to the Pacific Rim Region. Thus, we have used “Pacific Rim Region” for simplicity and clarity throughout the report.
**Incorrect vehicle locations.** On November 7, 2016, Pacific Rim Region Fleet officials issued a revised submission to the EPA intended to correct “significant mistakes” from the original submission, including inaccurate vehicle locations. Pacific Rim Region Fleet identified 28 vehicles that had not operated in California. These vehicles had been misreported initially as being located in California because when a vehicle is sold, the vehicle’s “garaged location” in FMS defaults to the zonal headquarters or Fleet Management Center address, which is California for the Pacific Rim Region. Pacific Rim Region Fleet officials provided documentation to the EPA showing that 28 vehicles were assigned to customer agencies outside California and that GSA had no record indicating that these vehicles were operated in California.

The inaccurate vehicle locations highlighted a significant issue with using the FMS data for the response to EPA. FMS is a real-time database and the data is considered “live.” Essentially, the database maintains current vehicle data and limited historical data. Vehicle location can change based on customer agency requirements, but the FMS database does not retain historical data showing where that vehicle had been operated. Without a record of garaged location over time, there was no way to know with certainty, without additional research, which vehicles were subject to the Truck and Bus Regulation.

**Inaccurate vehicle weight.** In April 2017, the Pacific Rim Region Fleet identified errors in vehicle weights that resulted in the underreporting of vehicles subject to the Truck and Bus Regulation and as a result, submitted a third revision to the EPA to correct this deficiency.

Once aware of the issue, regional officials reviewed all vehicle weight data again and discovered 12 more non-compliant vehicles, 5 of which were still active and operational. The five active vehicles were taken out of service and designated for sale, according to the May 2017 revised submission. Fleet’s removal of active vehicles from service without a replacement plan jeopardizes customer agency missions and causes serious disruption to daily tasks.

Pacific Rim Region Fleet officials informed us that determining the weight for medium and heavy-duty diesel vehicles is complex. Fleet has contracts with third party vendors, known as marshalling centers, to handle the acceptance of new vehicles. The marshalling center accepts new vehicles and enters the vehicle data, including weight, into FMS prior to the customer picking up that vehicle. Heavy-duty vehicles may bear multiple weight marks due to upfitting changes such as adding a dump bed. Fleet officials provided an example of a Ford 750 dump truck, where Ford provides the chassis, then sends it to another manufacturer for installation of a dump bed. Ford may place one weight mark on the door panel, and the dump bed manufacturer may place another weight mark on the window. This can cause confusion about the total weight of the vehicle.
Since there may be more than one weight indicated on the vehicle and weight is entered into FMS manually, there is increased risk of data entry error. With so much room for variance in the weight for medium and heavy-duty trucks, Fleet does not have assurance that the weights are accurately recorded.

Eventually, EPA and GSA agreed to, and GSA paid, a $485,000 fine based on a determination that 208 vehicles were in violation of the regulation. This fine could have been avoided if the Pacific Rim Region Fleet had followed policy that was in place at the time. According to the GSA Fleet Handbook, dated December 2, 2011:

> In compliance with the Clean Air Act of 1990 (http://www.epa.gov/air/caa/), some States have implemented mandatory emissions testing programs. GSA-owned and -leased vehicles are subject to the requirements of the jurisdiction where the vehicles are regularly housed. Not all States have required the Federal Government to participate in the emissions testing program to the same degree. All require substantive compliance with the State emissions programs, but some do not require procedural compliance. The head of the regional Fleet Management office shall coordinate with State and local officials to ensure that the GSA Fleet meets emissions program standards.

If Pacific Rim Region Fleet had followed its own Fleet Handbook policy and properly evaluated the impact of the Truck and Bus Regulation on its fleet, it could have taken the necessary steps to identify the vehicles for replacement based on the California standard and follow the Truck and Bus Regulation.

During our audit, Fleet issued a “GSA Fleet Quality Assurance Policy.” The purpose of this policy is “to issue procedures and protocols to be followed when new laws/regulations are promulgated, changes to existing laws/regulations are issued, or investigations/audits are initiated that impact Fleet operations.”
Conclusion

GSA was fined $485,000 by the EPA because FAS’s Fleet in the Pacific Rim Region did not correctly evaluate the impact of California’s Truck and Bus Regulation emissions standards on its fleet and as a result, did not take the necessary steps to ensure compliance. GSA did not have controls in place to ensure compliance with applicable laws and regulations. Furthermore, Fleet did not follow its own policy requiring coordination with state and local officials to ensure that FAS Fleet meets emission program standards. If the Pacific Rim Region Fleet had established adequate processes to ensure that vehicles were accurately tracked and taken the proper safeguards to ensure compliance, this fine could have been avoided.

Recommendations

We recommend that the FAS Commissioner direct the Office of Fleet Management to:

1. Ensure management adheres to recently issued policy related to new or updated laws and regulations. This may include establishing action plans and consulting with legal counsel to proactively address changes in laws and regulations.

2. Assess whether the Fleet Management System meets current and future needs to track vehicle information related to emissions standards compliance effectively. This assessment should include, at a minimum, an evaluation of data integrity in the Fleet Management System, including vehicle weight and location.

GSA Comments

The FAS Commissioner agreed with our audit recommendations. GSA’s comments are included in their entirety in Appendix B.

Audit Team

This audit was managed out of the Great Lakes Region Audit Office and conducted by the individuals listed below:

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<thead>
<tr>
<th>Name</th>
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<tr>
<td>Adam Gooch</td>
<td>Regional Inspector General for Auditing</td>
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<td>Michael Lamonica</td>
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<td>Dana Johnson</td>
<td>Auditor-In-Charge</td>
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<tr>
<td>Rachel Story</td>
<td>Auditor</td>
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Appendix A – Scope and Methodology

We reviewed Fleet controls related to compliance with emissions laws and regulations in the Pacific Rim Region from May 2012 to the present.

To accomplish our objectives, we:

- Reviewed Fleet’s revised organizational structure as of 2015 and its previous organizational structure;
- Examined audit reports on Fleet issued by the GSA Office of Inspector General and GAO;
- Attended a training conference for Fleet officials;
- Discussed the Truck and Bus Regulation with officials from the California Air Resources Board;
- Interviewed Pacific Rim Region and Central Office Fleet officials related to Fleet policies and procedures;
- Interviewed Pacific Rim Region legal counsel related to the EPA’s Request for Information, Notice of Violation, and subsequent correspondence between GSA and EPA related to the settlement of the fine;
- Examined the Fleet Handbook, FMR, GSA and FMR vehicle replacement standards, GAO’s Green Book, and California’s Truck and Bus Regulation;
- Assessed Pacific Rim Region Fleet’s controls for vehicle data and compliance with the Truck and Bus Regulation and other State emissions regulations in California; and
- Generated inventory reports from Fleet Drive-thru and the Fleet Reports website.

We conducted the audit between January and August 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

Internal Controls

Our assessment of internal controls was limited to those necessary to address the objective of the audit. Identified internal control issues are discussed in the Results section of this report.
Appendix B – GSA Comments

April 3, 2018

MEMORANDUM FOR ADAM GOOCH
REGIONAL INSPECTOR GENERAL FOR AUDITING
GREAT LAKES REGION AUDIT OFFICE (JA-5)

FROM: ALAN B. THOMAS JR.
COMMISSIONER
FEDERAL ACQUISITION SERVICE (O)

SUBJECT: Agency Management Response – GSA OIG draft report entitled FAS’s Office of Fleet Management in the Pacific Rim Region Did Not Comply with California State Emissions Regulations, Resulting in a $485,000 Fine, Report Number A170040F

Thank you for the opportunity to review and comment on the draft U.S. General Services Administration (GSA) Office of Inspector General’s (OIG) draft report entitled FAS’s Office of Fleet Management in the Pacific Rim Region Did Not Comply with California State Emissions Regulations, Resulting in a $485,000 Fine. GSA concurs with the OIG recommendations, and has already taken steps to resolve compliance issues and prevent further instances of noncompliance.

In the report, the OIG issued two (2) recommendations to GSA. The OIG recommends that GSA take the following actions:

1. Ensure management adheres to recently issued policy related to new or updated laws and regulations. This may include establishing action plans and consulting with legal counsel to proactively address changes in laws and regulations.

2. Assess whether the Fleet Management System meets current and future needs to track vehicle information related to emissions standards compliance effectively. This assessment should include, at a minimum, an evaluation of data integrity in the Fleet Management System, including vehicle weight and location.

GSA concurs with these recommendations and has already taken steps to prevent future instances of noncompliance. As mentioned in the first recommendation, GSA

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Fleet issued new policy related to new or updated laws and regulations. GSA Fleet will adhere to this policy going forward. Additionally, GSA Fleet is embarking on a program-wide systems modernization effort that will enhance the program's ability to track and monitor compliance more effectively.

GSA Fleet took immediate steps to resolve the compliance issues with California state emission regulations. All the vehicles cited for non-compliance were replaced with a compliant vehicle or otherwise found to comply as of July 19, 2017. To ensure continuity of customers' missions while immediately removing non-compliant vehicles from service, GSA Fleet provided customers with immediate replacement vehicles through short term rental vehicles or the rotation of other compliant vehicles until long-term replacement vehicles arrived.

The Federal Acquisition Service point of contact for this matter is, William A. Toth, Jr., Director, Office of Fleet Management, at william.toth@gsa.gov or 703-334-2723.

Sincerely,

[Signature]

Alan B. Thomas, Jr.
Commissioner
Appendix C – Report Distribution

GSA Administrator (A)
Commissioner (Q)
Deputy Commissioner (Q1)
Deputy Commissioner (Q2)
Chief of Staff (Q0A)
Assistant Commissioner, Office of Policy and Compliance (QV)
Financial Management Officer, FAS Financial Services Division (BGF)
Assistant Commissioner, Office of Travel, Motor Vehicle, and Card Services (QM)
Acting Chief Administrative Services Officer (H)
Audit Management Division (H1EB)
Audit Liaison, FAS (Q)
Assistant Inspector General for Auditing (JA)
Director, Audit Planning, Policy, and Operations Staff (JAO)