



August 29, 2018

To: John Zabler, City Manager

From: Alice Garner, Internal City Auditor *Alice Garner*

Re: Review of Take-Home Vehicles – Project No. 2018-04B

We have conducted a review of the City of Ocala's Take-Home Vehicles as requested by City Council. The objectives of the review were to determine whether City employees assigned a take-home vehicle were in compliance with policies and regulations. The review was conducted by Randall Bridgeman.

To accomplish our objectives, we inquired with management, identified employees assigned a take home vehicle, reviewed the City policy on personal usage of a City vehicle, requested employees maintain a mileage log for a two-week period, examined the mileage log for any trends or potential misuse, examined payroll information to determine that employees were paying taxes on the benefit derived from using a City owned take home vehicle and reviewed Internal Revenue Service's Publication 15-B Employer's Tax Guide to Fringe Benefits.

Our review included such tests of records and other procedures, as we considered necessary in the circumstances. It should be noted that our review did not include the vehicles assigned to the Ocala Police Department's sworn police officers or to Fire Rescue personnel. Our review period was October 1, 2016 through May 31, 2018. However, transactions, processes and situations reviewed were not limited by the review period.

During the course of our review, we noted aspects of the operations that were working effectively including:

- City employees assigned a take-home vehicle were not also receiving a car allowance.
- The policy for personal usage of a City Vehicle appears to be adequate.

Based on our work performed, we conclude that City employees assigned a take-home vehicle were not in compliance with policies and regulations. Some opportunities for improvement were noted.

We appreciate the cooperation and assistance provided by the departments contacted during the course of our review.

Cc: Ocala City Council Members
Bill Kauffman, Assistant City Manager
Ken Whitehead, Assistant City Manager
Sandra Wilson, Deputy City Manager
Emory Roberts, Finance and Customer Service Director
Jared Sorensen, Human Resources and Risk Management Director

BACKGROUND:

The City of Ocala provides take-home vehicles to 42 City employees to effectively and efficiently perform their work duties and responsibilities. Employees can take the vehicles home and are required to have minimum personal usage of the vehicle when not on duty or performing in an official City capacity. The City purchases and maintains the vehicle, provides fuel and insurance coverage, and the employee receives a taxable fringe benefit for commuting back and forth from home to work when using a City owned take-home vehicle.

OPPORTUNITIES FOR IMPROVEMENT:

Our review disclosed certain policies, procedures and practices that could be improved. Our review was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. **A current list of take-home vehicle assignments is not maintained.** During the course of our review, we requested that the Human Resources and Risk Management (HR) department provide a current list of employees assigned a take-home vehicle and were informed that a current listing did not exist. HR staff then proceeded to compile a list by contacting the individual departments to identify which employees had been assigned a take-home vehicle. Once we obtained the listing from HR, we learned from one of the departments that they had an additional five employees assigned a take-home vehicle that were not included on the listing from HR. We then reached out to all departments to validate their list of employees and no further additions were identified. Because commuting mileage associated with take-home vehicles is a taxable employee benefit, we compared the revised list of employees assigned take-home vehicles to the Payroll list of employees utilized in calculating the taxable employee benefit. There was a total of ten employees not included in the taxable benefit calculation. The City did not calculate the taxable employee benefit for all employees assigned a take-home vehicle and, as a result, paid the incorrect amount of Federal Insurance Contribution Act Tax (FICA).

We recommend management:

- A. Update the listing of employees assigned a take-home vehicle for each new authorization approved by the City Manager's Office.
- B. Provide the payroll supervisor with an updated listing of employees assigned a take-home vehicle each time a new authorization is approved.

Management Response:

- A. Agreed. The City take-home vehicle justification policy has not been updated since 2007. In addition to reviewing and revising the policy as needed, a new take-home vehicle justification form will be issued to each department that will require re-application for every current take-home vehicle being authorized and all future requests. This process will be completed by October 26, 2018.
- B. Agreed. This recommendation will be completed after all new take-home justification forms are received and no later than November 2, 2018.

2. **Some City employees are abusing the privilege of having a take-home vehicle assignment.** According to the City of Ocala Employee Handbook dated August 15, 2017, the Vehicle Use – Personal Use section states that, “Personal use of City vehicles is prohibited, except for incidental local use such as taking breaks or meal periods, or completing a personal errand that does not require indirect travel”. During our review work, we requested that all employees assigned a take-home vehicle prepare a mileage log for a two-week period. Our review of the mileage logs indicated that there were 23 out of 40 (57%) vehicles in which the mileage attributable for commuting use was in excess of 50%. One department had two employees with 87.4% and 70.8% of their total vehicle usage attributable to commuting and personal miles driven. Employees are not required to document their business or personal use mileage relating to their take home vehicles; the mileage logs maintained during our review are the only documented evidence of take home vehicle usage. Take-home vehicles should only be used to assist City employees with performing their job responsibilities and not as a mode of transportation for personal use.

We recommend management reinforce the provisions of the Vehicle Use - Personal Use of City Vehicles as documented in the Employee Handbook dated August 15, 2017 with each employee assigned a take-home vehicle.

Management Response: Agreed. Management will sit down with each current and future authorized employee to personally review the policy and to create a record of that review. This recommendation will be achieved no later than November 2, 2018.

3. **Authorizations for take-home vehicle assignments are not adequately documented.** During our review, we requested copies of the authorization forms denoting which City employees had been approved by the City Manager’s Office and assigned a take-home vehicle. Take-home vehicle requests and City Manager Office authorizations should be documented and retained. We found that the process was less formal than anticipated and that an email from the City Manager’s Office would be the only documentation for our examination. We then learned that the emails were not readily available or easily

accessible for our review. Since the approval by the City Manager's Office has not been adequately documented, the listing of employees assigned a take-home vehicle may not be accurate or complete.

We recommend management provide the approved authorizations for take-home vehicle assignments to human resources and payroll supervisors.

Management Response: Agreed. Management will comply with this recommendation by November 2, 2018.

4. **The City is not in compliance with IRS requirements for a vehicle regularly used in business.** According to the Internal Revenue Service (IRS) Publication 15-B, "...a vehicle is regularly used in your trade or business if at least 50% of the vehicle's total annual mileage is for your trade or business." The publication also states that the employees should have de minimis personal use of company owned vehicles. During our review work, we requested that employees with a take-home vehicle assignment maintain a mileage log for a period of two weeks. As previously noted, our review of the mileage logs found that 23 out of 40 of the employees used the City vehicle 50% or more for commuting purposes. It should be noted that the IRS allows for a few methods to be used in calculating the taxable employee benefit portion: General Valuation Rule, Cents-Per-Mile Rule, Commuting Rule or the Lease Value Rule. The City utilizes the Commuting Rule in calculating the tax attributable to the commuting miles which appears to generate the least amount of tax liability for the employee and the City. If the 50% threshold is not met, the IRS could take the position that the employees are receiving benefits for which they are not being fully taxed on and that the City is not paying the correct amount of FICA on the benefits being provided. The IRS could use the General Valuation Rule which incorporates the Fair Market Value of the vehicle to determine the taxable benefit. This would create a larger tax liability for both the City and the Employee. The City currently does not require the employees to submit documentation as to the business or personal mileage attributable to their respective take-home vehicle. Should the City be audited by the IRS, there is no documentation available to provide evidence that the City is meeting the 50% business use threshold.

We recommend management:

- A. Require annual mileage logs to track the commuter miles be prepared by each employee assigned a take home vehicle.
- B. Require the completed mileage logs be submitted for review and retention within each respective department.

- C. Require employees to certify annually that the take-home vehicle assigned to them was used primarily for business use.

Management Response:

- A. Agreed. Each assigned employee will complete a daily log of their commuter miles and submit the logs monthly. This recommendation will be implemented beginning September 17, 2018.
- B. Agreed. Management will comply with this recommendation immediately after formal logging commences on September 17, 2018.
- C. Agreed. Management will comply with this recommendation to coincide with each calendar year-end to coincide with IRS reporting requirements.