

MANAGEMENT AUDIT REPORT

OF

**TAKE-HOME VEHICLES
CITY OF ALBUQUERQUE**

REPORT NO. 12-108



**City of Albuquerque
Office of Internal Audit**

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CITY-WIDE
TAKE HOME VEHICLES
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City of Albuquerque – Take-Home Vehicles
Report No. 12-108
Executive Summary

The Office of Internal Audit (OIA) conducted a city-wide, management audit of take-home vehicles. The audit was included in the fiscal year (FY) 2012 audit plan.

The City of Albuquerque (City) spends a significant amount of resources on acquiring and maintaining a fleet of vehicles and equipment to enable employees to perform their duties. The City's Vehicle Usage Policy, Administrative Instruction 4-5, identifies vehicles as:

- General Use – Vehicle assigned to a Department to be used as needed on a priority basis, not for the exclusive use of a particular employee,
- Take-Home – Vehicle assigned exclusively to an individual because of the nature of their job duties and that they are authorized to operate outside of normal working hours, and
- Rotating or Seasonal Use Take-Home – Take-Home vehicle assigned to one or more employees, concurrently or sequentially.

Does the City assign take-home vehicles in accordance with Administrative Instruction 4-5, City Vehicle Usage Policy?

Administrative Instruction (AI) 4-5 does not include key operational procedures necessary to effectively monitor and administer the use of City vehicles. AI 4-5 does not contain language to address:

- Vehicle application and submission due dates and specific instances requiring renewal;
- Documentation of periodic reviews by department directors;
- Documentation requirements for after-hour call outs or meetings and what call outs are considered mitigation of public health or safety emergencies; and
- Applicable Internal Revenue Service (IRS) fringe benefit procedures for employer-provided vehicle use.

Does the City have internal controls to help prevent unauthorized use of a take-home and semi-take home vehicle?

Periodic reviews by department directors to ensure adherence to AI 4-5 are not being performed.

Does the City report vehicle usage in accordance with pertinent Internal Revenue Service taxation rules and regulations?

The City has not recognized the personal use of an employer-provided vehicle as a taxable fringe benefit for thirty one of 63 City employees with a take-home vehicle assignment.

Recommendations and management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

December 12, 2012

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Management Audit
Citywide – Take-Home Vehicles
Audit No. 12-108

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a city-wide, management audit of take-home vehicles. The audit was included in the fiscal year (FY) 2012 audit plan.

The City of Albuquerque (City) spends a significant amount of resources on acquiring and maintaining a fleet of vehicles that enable employees to perform their duties. The City's Vehicle Usage Policy, Administrative Instruction No. 4-5 (AI 4-5), identifies vehicles as:

- General Use – Vehicle assigned to a Department to be used as needed on a priority basis, not for the exclusive use of a particular employee
- Take-Home – Vehicle assigned exclusively to an individual because of the nature of their job duties and that they are authorized to operate outside of normal working hours
- Rotating or Seasonal Use Take-Home – Take-Home vehicle assigned to one or more employees, concurrently or sequentially.

An employee requesting a vehicle must complete a City of Albuquerque Application for Take-Home or Semi-Take Home Vehicle (Application) and obtain approval from his/her department director. The director submits the approved Application to the Chief Administrative Officer (CAO) for final approval or disapproval. The original approved Application is forwarded to and maintained by the Department of Finance and Administrative Services (DFAS).

DFAS, Fleet Management Division (FMD) uses Fleet Focus software to manage the City's vehicle fleet. Fleet Focus has the capability of identifying the status of a vehicle as a take-home or semi-take home. During FY 2012, FMD did not utilize this capability. Instead, DFAS keeps a list of assigned vehicles in an excel spreadsheet that includes:

- employee name,
- department,
- employee job title,
- employee number,
- vehicle number,
- vehicle license plate number,
- vehicle application date,
- expiration date of employee's vehicle/equipment operators permit,
- and the department's justification for the assignment.

In FY 2012, the City assigned approximately 198 vehicles for the exclusive use by a particular employee, including 62 take-home vehicles, 111 semi-take home vehicles, and 25 temporary, seasonal, or rotating vehicles. See Exhibit 1 below.

Exhibit 1 – Number of Assigned Vehicles by City Department as of June 2012

| Department | Assigned Vehicles | | |
|------------------------------------|-------------------|----------------|----------------------------------|
| | Take-Home | Semi-Take Home | Temporary, Seasonal, or Rotating |
| Environmental Health (EHD) | 2 | 4 | 7 |
| Municipal Development (DMD) | 8 | 26 | 13 |
| Planning | - | 51 | - |
| Mayor's Office | 3 | - | - |
| Parks & Recreation (PRD) | - | 1 | 4 |
| Aviation | 5 | - | 1 |
| Transit | 1 | - | - |
| Fire (AFD) | 23 | 24 | - |
| Solid Waste Management (SWMD) | - | 2 | - |
| Police* (APD) | 19 | 3 | - |
| Family & Community Services (FCSD) | 1 | - | - |
| Total | 62 | 111 | 25 |

Source: FY12 assigned vehicle lists provided by City Departments

*Excludes sworn officers (civilian employees only)

According to AI 4-5:

- City employees must satisfy the following criteria to be authorized the use of a take-home vehicle:
 - The employee’s primary residence is within the City limits,
 - The employee must normally respond to after-hour call outs or attend after-hour meetings on an average of two times per week, and
 - Call outs must be related to the mitigation of public health and or safety emergencies.
- The criteria and application process for approval of a rotating or seasonal-use of a take-home vehicle is the same as for a full time take-home vehicle.
- Department directors or their designees are responsible for managing, monitoring and enforcing the City’s vehicle usage policy. Department directors are also responsible for conducting periodic reviews to ensure that employees approved for take-home vehicles remain qualified.

The Collective Bargaining Agreement between the City and Albuquerque Police Officer’s Association (APOA) has a policy that specifically addresses take-home vehicle assignments for sworn APD employees. This audit will only address civilian employees following the criteria and application process outlined in AI 4-5.

In an effort to identify common vehicle use policies of other cities, OIA surveyed 15 regional and comparable cities, of which eight responded. The information derived from these surveys may provide the City with a greater understanding and valuable insight of other cities’ vehicle use operations. Survey results are presented below.

Comparable City Vehicle Use Matrix

| City | Take-Home Vehicles | Criteria | Oversight | Assignment |
|-----------------|--|--|-------------------------|--|
| Albuquerque, NM | 87 take-home out of 3,607 (excludes APD sworn officers), and 111 semi-take home vehicles | 1. Must live within City limits. 2. Must respond to after-hour call-outs/meetings on an average of two times per week. 3. Call-outs must be related to the mitigation of public health or safety emergencies | Department directors | Each department manages their own program. Department directors report to the CAO. |
| Denver, CO | 350 out of 3,700 (excludes Denver International Airport vehicles) | 1. Respond to emergencies or service related to property, health, safety of citizens. 2. Must live within 25 miles of work. | The Controller’s Office | Annually, the Expending Authority reviews all vehicle requests and status changes. |

| City | Take-Home Vehicles | Criteria | Oversight | Assignment |
|-------------------|--|--|--|---|
| Las Vegas, NV | 24 out of 1,200 | <ol style="list-style-type: none"> 1. Must be a supervisor or above 2. Respond to after hour, weekend, or holiday emergencies 3. Must reside within the City limits | Department directors | Each department manages their own program. Department directors report to city manager |
| Oklahoma City, OK | 43 out of 1,864 (non-public safety units) | No established criteria. | Fleet Services Division | Department directors report to city manager annually |
| Tucson, AZ | 1,900 light-duty vehicles (number of take-home vehicles unknown) | <ol style="list-style-type: none"> 1. Must benefit the City 2. Must have a 24-hour assignment in order to carry out assigned job duties. 3. Must live within 20 miles from their permanent work site (additional approval required) | Department directors shall monitor employee use of City vehicles. | Annual reviews of vehicle requests done by department directors with results reported to city manager |
| Kansas City, MO | 53 out of 2,544 (does not include Police or Aviation) | <ol style="list-style-type: none"> 1. Frequently subject to after-hours service requests requiring emergency response 2. A specialized vehicle, tools, or equipment are required for the performance of emergency duties 3. Frequently assigned to work in an area closer to home than to the place where the vehicle is stored 4. Department Director has given approval <p>(Exceptions include: economic benefit to the City, on-call assignment, and response to severe emergencies)</p> | Central Fleet Division and the Finance Department – Department Directors are charged with monitoring | Annual reviews by department directors with results reported to Finance director and city manager |
| Mesa, AZ | 1,520 fleet units (does not include Police) – number of take-home vehicles unknown | <ol style="list-style-type: none"> 1. Emergency call-outs 2. Standby assignment 3. Availability | Department directors authorize the assignment of take-home vehicles. | Department directors are responsible for all records and updates. |
| Las Cruces, NM | 1,192 fleet units (number of take-home vehicles unknown) | Call-back response | Assignment of vehicles handled by the section administrator. | Assignment of vehicles handled by the section administrator. |
| Rio Rancho, NM | Number of take-home vehicles unknown | Must provide service or availability during non-working hours | Department directors | Department directors |

Source: OIA Survey

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Does the City assign take-home vehicles in accordance with AI 4-5, City Vehicle Usage Policy?
- Does the City have internal controls to help prevent unauthorized use of a take-home and semi-take home vehicle?
- Does the City report vehicle usage in accordance with pertinent Internal Revenue Service (IRS) taxation rules and regulations?

SCOPE

Our audit did not include an examination of all functions and activities related to the City's vehicle practices. Our scope was limited to the above objectives for fiscal year 2012.

This report and its conclusions are based on information taken from a sample of related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, October 16, 2012 and does not reflect events or accounting entries after that date.

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

METHODOLOGY

We utilized several methodologies to achieve the audit objectives. These evidence gathering techniques included, but were not limited to:

- Collecting information from take-home vehicle surveys sent to each City Department and surrounding cities comparable to Albuquerque,
- Interviewing Department Directors or designees,
- Observing vehicles at designated City-owned parking lots and facilities,
- Reviewing Applications,
- Reviewing AI 4-5,

- Reviewing Government Finance Officers Association (GFOA) Best Practices, and
- Reviewing IRS regulations pertaining to vehicle use fringe benefits.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. THE CAO SHOULD REVISE AND UPDATE AI 4-5 TO ENSURE THAT THE USE OF THE CITY'S VEHICLES IS EFFICIENT AND EFFECTIVE.

AI 4-5 has not been updated since 2008 and does not include key operational procedures necessary to effectively monitor and administer the use of City vehicles. AI 4-5 does not contain language to address:

- Vehicle application and submission due dates and specific instances requiring renewal;
- Documentation of periodic reviews by department directors;
- Documentation requirements for after-hour call outs or meetings and what call outs are considered mitigation of public health or safety emergencies; and
- Applicable IRS fringe benefit procedures for employer-provided vehicle use.

Inconsistent implementation of the City vehicle usage policies can occur across City departments when specific requirements and instructions are not documented within regulatory procedures.

A. Vehicle Application and Submission Due Dates

AI 4-5 does not specify a due date for submitting and renewing vehicle applications. A summary of FY 2012 assigned vehicles submitted to OIA by individual departments was compared to the CAO approved FY 2012 Applications in DFAS to determine if vehicle records reconciled. The issues below were identified during test work.

- Two Applications obtained from departments were approved by the CAO during FY 2012, however, were not on file with DFAS.

- 93 of 198 City employees with take-home or semi take-home vehicle assignments did not submit Applications to the CAO during FY 2012, including 62 take-home vehicle assignments and 31 semi-take home vehicle assignments.
 - Seven of 13 employees from EHD,
 - One of 47 employees from DMD,
 - Three of 51 employees from the Planning Department,
 - Three of three employees from the Mayor's Office,
 - Two of five employees from the PRD,
 - Five of six employees from the Aviation Department,
 - One of one employee from the Transit Department,
 - 47 of 47 employees from AFD,
 - One of two employees from SWMD,
 - 22 of 22 civilian employees from APD,
 - One of one employee from DFCS.

B. Periodic Review

AI 4-5 does not specify how often department directors should conduct reviews to ensure employees are still qualified for vehicle assignments or when a revision of a vehicle application is necessary. When comparing the location of assigned vehicles on the Application to the physical location of the vehicle, we found two of 36 employees changed the physical location of the vehicle without revising the vehicle application.

C. Documentation Requirements for After-Hour Call Outs or Meetings

AI 4-5 does not require employees with take-home vehicle assignments to maintain records for after-hour call outs and after-hour meetings. All 29 employees tested from our sample could not provide sufficient and accurate information on the number of after-hour call outs and after-hour meetings attended.

D. IRS Fringe Benefit Procedures

AI 4-5 does not include IRS reporting requirements to identify the vehicle assignments that are responsible for reporting and those that are exempt from the requirements.

Operation of a take-home vehicle is an example of a fringe benefit when an employer-provided vehicle is used for both business and personal purposes (commuting between residence and work station). Exceptions to the limitation on personal use are:

- Use that qualifies as de minimus (infrequent, not more than one day per month, commuting in employer-provided vehicle), and
- Use of a clearly marked police, fire or public safety officer vehicles.

The City has not recognized the personal use of an employer-provided vehicle as a taxable fringe benefit for thirty one of 63 City employees with a take-home vehicle assignment.

- Nine of nine employees from EHD,
- One of three employees from the Mayor's Office,
- One of one employee from the Transit Department,
- Four of four employees from the PRD,
- Two of 19 employees from APD,
- One of one employee from DFCS,
- 13 of 21 employees from DMD.

The Government Finance Officers Association (GFOA) states one of the best ways to ensure effective communication within a government for purposes of internal control is to document the government's accounting-related policies and procedures. The GFOA recommends that:

- Management should annually evaluate the adequacy of its documentation of accounting-related policies and procedures;
- Management should periodically (at least once every three years) update its documentation of accounting-related policies and procedures to ensure that the documentation is still complete and timely;
- Management should update its documentation of accounting-related policies and procedures as soon as a change occurs, rather than waiting for the next scheduled update.

RECOMMENDATION

The CAO should revise and update AI 4-5 to ensure that the use of the City's vehicles is efficient, effective and provides accountability while meeting the public health and safety needs of the City.

RESPONSE FROM CAO

“AI 4-5 has been revised and updated.”

ESTIMATED COMPLETION DATE

“Effective December 3, 2012.”

2. THE CAO SHOULD ENSURE CITY DEPARTMENTS COMPLY WITH AI 4-5.

Several compliance deficiencies by department directors were noted during test work. Department directors or their designees are responsible for managing, monitoring and enforcing the City’s vehicle usage policy. However, criteria, application process and oversight practice exceptions were noted during test work.

Without periodic review and documentation of vehicle assignments, there can be no assurance that authorization for the exclusive use of a vehicle is still appropriate or necessary to fulfill the City’s responsibilities. As a result of the identified weaknesses, City vehicles are being provided for the exclusive use of City employees who did not receive approval from the CAO or do not qualify for such vehicles.

A. Criteria and Application Process

AFD and APD do not submit vehicle applications to the CAO for approval.

- Three of 23 AFD employees tested with take-home vehicle assignments do not reside within the City limits.
- EHD did not follow the application process outlined in AI 4-5 for the assignment of seven temporary take-home vehicles during FY 2012. EHD received approval from the deputy CAO exempting it from following the criteria and application process for temporary take-home vehicle assignments stated in AI 4-5.
- Two employees from the Planning Department were assigned vehicles immediately upon hire, but did not complete and submit vehicle applications to the CAO until several months after operating the vehicles. The Planning Department submits vehicle applications to the CAO at the beginning of each fiscal year, instead of upon assignment of a vehicle.

According to AI 4-5:

- Absent union contract provisions to the contrary, no employee shall be authorized the use of a take-home vehicle unless the employee's primary residence is within the City limits.
- The criteria and application process for approval of rotating or seasonal use of a take-home vehicle is the same as for a full-time take-home vehicle.

B. Periodic Reviews

APD and AFD do not revise and update the department list of assigned vehicles. Neither department submits vehicle applications to the CAO for approval.

- Although the following employees no longer had possession of the vehicle, they remained on assigned vehicle lists after their departure.
 - One employee from AFD remained on the list over 17 months after the employee retired;
 - One employee from APD remained on the list over four months after the employee went into early retirement.
- AFD provided two different versions of their FY 2013 list of assigned vehicles.
 - One employee's vehicle location is different on each list;
 - One employee's vehicle is identified as a semi-take home vehicle assignment on one list and a take-home vehicle assignment on another list;
 - Two employees are assigned to the same vehicle;
 - One employee is assigned two different vehicles

According to AI 4-5, department directors are responsible for conducting periodic reviews to ensure that employees approved for take-home vehicles are still qualified.

RECOMMENDATION

The CAO should ensure that department directors comply with AI 4-5.

RESPONSE FROM CAO

“Agreed. The revised AI 4-5 includes: 1) Vehicle application and submission due dates and specific instances requiring renewal; 2) required periodic reviews by department directors; 3) requirements for

after-hour call outs or meetings and which call outs are considered as mitigation of public health or safety emergencies; and 4) provisions enforcing applicable Internal Revenue Service (IRS) fringe benefit procedures for employer-provided Vehicle use.”

ESTIMATED COMPLETION DATE

“Effective December 3, 2012.”

CONCLUSION

We believe this audit provides the City with recommendations to improve the efficiency and oversight of the City’s take-home vehicle practices.

We appreciate the assistance and cooperation of all City department personnel during the audit.

Staff Auditor

REVIEWED and APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP, CFE
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Chairperson, Accountability in
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