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Audit Report

Take-Home Vehicles Policy

May 25, 2010

Office of the City Auditor
Austin, Texas

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City of Austin

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Date: May 25, 2010
To: Mayor and Council
From: Kenneth J. Mory, City Auditor
Subject: Audit of Take-Home Vehicles Policy

I am pleased to present this audit report of the City of Austin's take-home vehicles policy. Administrative Bulletin 82-01 provides guidance for using and assigning City vehicles including take-home vehicles.

We found that there has been a City-wide decrease of forty-two percent in take-home vehicles assigned since 2008. However, we also found that most departments are not complying with City policy provisions related to take-home vehicles including assignment, reporting, and reimbursement.

In order to increase accountability for the use of City resources, we recommend that the City Manager's Office should direct a review of City policies related to take-home vehicles to determine if changes are necessary, and direct all City departments to comply with take-home vehicles policies. Finally, we recommend that the Financial and Administrative Services department conduct a cost-benefit analysis to determine whether it would be cost effective to monitor take-home vehicle usage and require reimbursement for commuting miles.

Management concurred with two of three recommendations, but has decided to use an IRS-approved alternative method for dealing with reimbursement for commuting miles.

We appreciate the cooperation and assistance we received from the departmental representatives responding to the survey, staff in Fleet Services as well as the Financial and Administrative Services department during this audit.

cc: Marc Ott, City Manager
Leslie Browder, Chief Financial Officer
Jeff Knodel, Deputy Chief Financial Officer

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COUNCIL SUMMARY

This report includes the results of our audit of the City of Austin's take-home vehicles policy. Administrative Bulletin 82-01, issued March 29, 1982 and revised January 1, 1996, provides guidance for using City vehicles and equipment including vehicle assignments and take-home vehicles. In 2008, the City collected information from departments to determine the number and estimate the cost of take-home vehicles. We conducted an updated survey of departments and the results indicate non-compliance with portions of the Bulletin as well as an overall reduction in the number of take-home vehicles assigned.

Specifically, we found that there has been a citywide decrease of forty-two percent in take-home vehicles since 2008. However, most departments are not complying with City policy provisions related to take-home vehicles including:

- Ten of thirteen department directors delegate the assignment of take-home vehicles.
- No department directors are reporting take-home vehicle information to the City Manager.
- Five of thirteen departments have assigned take-home vehicles to employees who live outside the City service area.
- Not all departments have controls in place to provide reasonable assurance that vehicles are used only for business purposes.
- Department directors do not enforce the policy provision requiring employees to reimburse the City for take-home vehicle commuting miles.

In order to provide reasonable assurance of compliance with City policies and IRS requirements and to increase accountability for the use of City resources, we recommend that the City Manager's Office should direct:

- A review of City policies related to take-home vehicles to determine if changes are necessary.
- All City departments to comply with applicable City policies related to assignment and use of take-home vehicles.
- Financial Services to conduct a cost-benefit analysis to determine whether it would be cost effective to monitor take-home vehicle usage and require employees to reimburse the City for commuting miles at the applicable IRS mileage allowance rate.

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ACTION SUMMARY VEHICLE UTILIZATION



Recommendation Text	Management Concurrence	Proposed Implementation Date
01. Direct a review of City policies related to take-home vehicles to determine if changes are necessary.	Concur	Complete
02. Direct all City departments to comply with applicable City policies related to assignment and use of take-home vehicles.	Concur	July 2010
03. Direct Financial Services to conduct a cost-benefit analysis to determine whether it would be cost effective to monitor take-home vehicle usage and require employees to reimburse the City for commuting miles at the applicable IRS mileage allowance rate.	Does not concur	The new take-home vehicle policy will address the issue. Instead of Financial Services conducting a cost-benefit analysis, take-home vehicle authorization for non-emergency employees will be based upon economic justification and business need. Based upon these criteria, the employee will not be required to reimburse the City for commuting miles. Instead, it will be treated as a fringe benefit and the employee will be taxed accordingly. Currently, the IRS commute rate is \$1.50 per one-way trip.

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	3
AUDIT RESULTS	5
APPENDIX A: Management Response	9
EXHIBITS	
Exhibit 1: The number of take-home vehicles Citywide has decreased from 2008	5

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BACKGROUND

This audit was included in the OCA FY 10 Annual Service Plan based on the results of a risk assessment of citywide fuel efficiency conducted in FY 09. During the risk assessment we noted issues related to vehicle utilization and take-home vehicles which may have resulted in the City incurring costs for fuel and maintenance, as well as the impact of additional carbon emissions related to some vehicles. This report addresses take-home vehicles.

Administrative Bulletin 82-01 (the Bulletin) issued March 29, 1982 and revised January 1, 1996, provides guidance for using City vehicles and equipment including vehicle assignments and take-home vehicles. City management has been considering updates to this bulletin during the previous year and expects to implement a version with enhanced controls in the near future.

In 2008, the City collected information from departments to determine the number and estimate the cost of take-home vehicles. Our review of the results indicated non-compliance with portions of the Bulletin. Fleet Services estimated the cost associated with take-home commuter mileage to be approximately \$900,000 for 2008. Current compliance with the bulletin will be discussed in the audit findings section.

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OBJECTIVES, SCOPE, AND METHODOLOGY

Objective

Determine whether City policies provide adequate guidance to management on how the take-home vehicles should be administered, and whether management is following the policies.

Scope

This audit focused on the City's policies related to take-home vehicles. For testing purposes, the scope period included fiscal year 2008 and 2009 data.

Methodology

- Determined requirements from current City policies related to take-home vehicles.
- Surveyed departments with take-home vehicles on compliance with City policies.
- Obtained copies of applicable department take-home vehicle policies and procedures.
- Obtained and reviewed departmental take-home vehicle inventories.
- Compared current inventories to available historical data.

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AUDIT RESULTS

While several City departments have worked to decrease the number of take-home vehicles since 2008, departments are not complying with City policy in administering their take-home vehicle programs.

FINDING 1: There has been a citywide decrease of forty-two percent in take-home vehicles since 2008.

It is the policy of the City of Austin to keep take-home vehicles to the absolute minimum. In 2008, Fleet Services staff administered a self-reporting survey and identified 538 take-home vehicles in City departments. Since then, several organizational changes have occurred and some departments re-evaluated their needs and cut the number of take-home vehicles. For example:

- APD initiated a process to resize their fleet including the use of take-home vehicles.
- EMS gave up several vehicles as a cost control.
- Public Works reduced its take-home fleet by replacing several single function vehicles with two multi-function vehicles.

According to the latest information provided by City departments, the City of Austin reduced the number of take-home vehicles by 225 (see Exhibit 1).

EXHIBIT 1

The number of take-home vehicles Citywide has decreased from 2008

	AE	AFD	APD	AWU	EMS	FASD	HHS	PSEM	PW	SWS	WPDR	Total			
2008 Survey	10	43	282	16	16	21	23	10	12	28	77	538			
	AE	AFD	APD	AWU	EMS	FASD	HHS	Home-land	Trans.	PW	SWS	Code	WPD	PDR	
Current	10	48	198	15	11	7	1	1	5	2	0	0	12	3	313
Difference	0	5	-84	-1	-5	-14	-22	-9	-3	-2	0	-28	-65	3	-225

Source: OCA analysis of Fleet Services and OCA survey information (unaudited).

FINDING 2: Most departments are not complying with City policy provisions related to take-home vehicles.

Ten of thirteen department directors delegate the assignment of take-home vehicles.

According to the Bulletin, “[d]epartment directors may not delegate their authority to authorize the taking home of City vehicles and equipment.” In the thirteen departments surveyed with take-home vehicles, ten department directors indicated that they delegate take-home vehicle assignments to vice presidents or members of their management team. As a result, those department directors have less control over their take-home vehicles and are not taking full responsibility for the take-home vehicle assignments in their

department as prescribed by policy. Additionally, in some departments that were restructured in 2009, directors did not establish any practices related to take-home vehicles.

No department directors are reporting take-home vehicle information to the City Manager. According to the Bulletin, “[d]epartment directors must, at least annually, review and report all take-home vehicles, permanent assignments and emergency call or stand-by assignments to the City Manager...and must include total commuting miles as a percent of total miles driven.” We found that the majority of the department directors have compiled reports of take-home vehicle information. However, four departments had not updated reports on take-home vehicles since the 2008 Fleet Services survey. In several cases, departments provided the 2009 take-home vehicle report to either Fleet Services or the Controller’s Office. However, none of the departments we surveyed indicated that their department director submitted this report to the City Manager for 2009. Without periodic review of take-home vehicle assignments and miles driven, there can be no assurance that take-home vehicles are being kept to an absolute minimum.

Five of thirteen departments have assigned take-home vehicles to employees who live outside the City service area. According to the Bulletin, “[e]mployees who live outside the City service area are not allowed to take home vehicles.” However, two departments stated that they allow on-call employees who live outside the City service area to take vehicles home. Three other departments stated that employees who live outside the City service area take vehicles home, but did not provide details.

APD obtained a waiver of this provision of the policy and their general orders prohibit employees to “take a vehicle home if their residence is farther than a 25 mile buffer zone from the Austin city limits.” However, data we reviewed indicated that some APD employees with take-home vehicles may live beyond the 25 mile buffer zone. APD reporting included employees with commutes of 144, 118 and 110 miles.

Not all departments have controls in place to provide reasonable assurance that vehicles are used only for business purposes. The Bulletin states that take-home vehicles “will be used only for City business.” All survey responses indicated that take-home vehicles are used for business purposes only. Some departments have controls in place to monitor vehicle use, including:

- Mileage logs.
- Business-only use policies.
- GPS and vehicle location devices.
- Work orders for dispatched vehicles.
- Occasional or annual reviews of miles driven.

However, these controls are not applied uniformly across all departments with take-home vehicles, leaving some departments at risk of employees using vehicles for personal business. Use of City vehicles for personal business is a violation of City policy and could result in additional expense for the City as well as public dissatisfaction if the public becomes aware this has occurred.

Department directors do not enforce the policy provision requiring employees to reimburse the City for take-home vehicle commuting miles. According to the Bulletin, “[e]xcept for emergency call vehicles, drivers of take-home vehicles must reimburse the City for all commuting miles at the standard City mileage rate.” “Emergency call” is defined in the Bulletin as “[t]he requirement to respond to an emergency situation involving the health, safety or welfare of the community and where response time is critical to dealing with the emergency.” According to the survey responses, none of the employees with take-home vehicles were required to reimburse the City for their commute miles. Multiple departments indicated that they consider themselves to be exempt from the reimbursement requirement because they fall under the emergency call exception.

Based on self-reported data from 2009 and 2010, total commuting miles for all City departments with take-home vehicles was approximately 10,600 per day. This equates to approximately 2.4 million miles per year. If employees were to reimburse the City for these miles at the current IRS mileage allowance rate of fifty cents per mile, the total would be approximately \$1.2 million. Total commuting miles for City departments excluding Austin Police Department, Austin Fire Department and Austin/Travis County Emergency Medical Services was approximately 1,100 per day or 250,000 miles per year. Reimbursement to the City at the IRS mileage rate for those vehicles would be approximately \$125,000 per year.

The IRS completed an audit in 2009 and found that for 2006, the City provided a taxable fringe benefit to some employees when it did not require them to reimburse the City for commuting miles. As a result, the City was assessed \$20,000 in taxes for commuting mileage not reported.

In response to the IRS audit findings, the Controller’s Office established a payroll code to impute income of three dollars per day to employees for days when they commute in City vehicles. The payroll code method is allowed by the IRS as long as the employer is monitoring use to make sure that vehicles are being used only for business purposes. However, this method is not in compliance with existing City take-home vehicle policies. City management decided that requiring reimbursement for commuting miles is not in the City’s interest because it requires extensive administrative work involving multiple levels of review and controls.

Recommendations:

To provide reasonable assurance of compliance with City policies and IRS requirements, and to increase accountability for the use of City resources, The City Manager's Office should:

01. Direct a review of City policies related to take-home vehicles to determine if changes are necessary.

MANAGEMENT RESPONSE: Concur

City staff has drafted a new take-home vehicle policy that will be implemented in the near future.

02. Direct all City departments to comply with applicable City policies related to assignment and use of take-home vehicles.

MANAGEMENT RESPONSE: Concur

The new take-home vehicle policy will address this issue.

03. Direct Financial Services to conduct a cost-benefit analysis to determine whether it would be cost effective to monitor take-home vehicle usage and require employees to reimburse the City for commuting miles at the applicable IRS mileage allowance rate.

MANAGEMENT RESPONSE: Disagree

The new take-home vehicle policy will address the issue. Instead of Financial Services conducting a cost-benefit analysis, take-home vehicle authorization for non-emergency employees will be based upon economic justification and business need. Based upon these criteria, the employee will not be required to reimburse the City for commuting miles. Instead, it will be treated as a fringe benefit and the employee will be taxed accordingly. Currently, the IRS commute rate is \$1.50 per one-way trip.

APPENDIX A
MANAGEMENT RESPONSE

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ACTION PLAN
Fuel Management – Take-Home Vehicles Policy

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/Phone Number	Proposed Implementation Date
01	Direct a review of City policies related to take-home vehicles to determine if changes are necessary.	Concur	City staff has drafted a new take-home vehicle policy that will be implemented in the near future.	Complete	Jeff Knodel 974-2589	
02	Direct all City departments to comply with applicable City policies related to assignment and use of take-home vehicles.	Concur	The new take-home vehicle policy will address this issue.	Underway	Jeff Knodel 974-2589	July 2010
03	Direct Financial Services to conduct a cost-benefit analysis to determine whether it would be cost effective to monitor take-home vehicle usage and require employees to reimburse the City for commuting miles at the applicable IRS mileage allowance rate	Disagree	The new take-home vehicle policy will address the issue. Instead of Financial Services conducting a cost-benefit analysis, take-home vehicle authorization for non-emergency employees will be based upon economic justification and business need. Based upon these criteria, the employee will not be required to reimburse the City for commuting miles. Instead, it will be treated as a fringe benefit and the employee will be taxed accordingly. Currently, the IRS commute rate is \$1.50 per one-way trip.	N/A	Jeff Knodel 974-2589	