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Clerk of the Circuit Court & Comptroller of Manatee County

Division of Inspector General

Audit Report

County Take-Home Vehicle Audit

As of August 26, 2022

September 29, 2023

Audit No. 22210300

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
DIVISION OF INSPECTOR GENERAL

COUNTY TAKE-HOME VEHICLE AUDIT

AUDIT REPORT

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DIVISION OF INSPECTOR GENERAL

COUNTY TAKE-HOME VEHICLE AUDIT

AUDIT REPORT

The Division of Inspector General conducted an audit of County take-home vehicle use as of August 26, 2022. The audit was performed in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States, and the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

BACKGROUND

The Public Works Department Fleet Services Division (Fleet) is responsible for maintenance, repairs, and replacements for all County vehicles. Fleet assigns vehicles based on a department's needs. Department directors may request a vehicle be assigned to an employee whose duties require the use of a take-home vehicle to conduct County business. Approved employees are permitted to use take-home vehicles to commute to and from work. As of August 2022, there were 222 take-home vehicles assigned throughout the various County departments.

According to the Internal Revenue Service (IRS), an employee's use of a take-home vehicle for commuting is considered a taxable fringe benefit. County employees are required to report daily take-home vehicle use on their timesheets. A value is then added to the gross wages of the employees for each day of use, in accordance with IRS rules. Manatee County also provides additional pay to the employees to cover a portion the tax liability related to the vehicle benefit.

PURPOSE/OBJECTIVES

The objectives of the audit included determining whether:

- all take-home vehicles are accounted for, assigned for a valid business purpose, and authorized;
- employees who take work vehicles home are properly reporting the fringe benefit; and
- Manatee County is properly valuing vehicle fringe benefits for tax purposes.

SCOPE

The scope of the audit included take-home vehicle assignment records and payroll records for the period July 16, 2022, to August 26, 2022.

METHODOLOGY

To meet the objectives of the audit, we obtained an understanding of County vehicle assignments and the related payroll implications by reviewing relevant laws, policies and procedures, and interviewing County staff. Various sampling techniques were used to perform substantive testing. Supporting documentation was obtained and reviewed for the items tested. Interviews with County staff were conducted, as necessary.

STATEMENT ON INTERNAL CONTROL STRUCTURE

In planning and performing the audit of County take-home vehicle use for the period ending August 26, 2022, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. Internal control weaknesses involve matters relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions. In addition, because of the inherent limitations in any internal control structure, deficiencies in its design or operation may exist and not be detected. In this report, we did not note any matters involving significant internal control weaknesses.

MANAGEMENT TEAM AND ACTION PLAN

A Management Action Plan has been provided for each area for improvement identified. Management Action Plans are corrective actions with implementation dates developed in cooperation with the management team of the Fleet Division, Human Resources Department (HR) and the Division of Inspector General. The management team included Chad Butzow, Public Works Director; Matt Case, Fleet Division Manager; Kate Barnett, Interim HR Director; and HR staff members including Zach Ribble, Judson Fillingim, Stephanie Rack, and Touhue Vang.

MANAGEMENT SUMMARY

Take-home vehicles are County-owned vehicles assigned to employees for County business use; employees are also permitted to use the vehicles to commute to and from work. Assignment of a take-home vehicle is requested by completing a Twenty-Four Hour Vehicle Assignment Request (24-hour request) form. The form is approved by the requesting department director and the Fleet Manager. A request for a take-home vehicle may only be approved if the employee resides within Manatee County, and one or more of the following factors is present: the duties cannot be performed without the capabilities of the vehicle, or a clear cost savings can be demonstrated.

Manatee County's Personnel Policy, Rules and Procedures Manual (Personnel Policy) requires employees to document take-home vehicle use when they record their daily work hours in the County's time and attendance system. This is accomplished by recording a "Vehicle Day" in the UKG timekeeping system. The policy also states that employees who operate a vehicle to and from work shall be responsible for the personal tax liability for the value of this use.

According to IRS Publications 15-B, Employer's Tax Guide to Fringe Benefits, and 5137, Fringe Benefit Guide, providing an employee a take-home vehicle for commuting to and from work is considered a taxable fringe benefit, and the value of this benefit must be included in the recipient's pay. Multiple benefit valuation rules may apply, including the cents-per-mile rule, commuting rule, or lease value rule. Each rule has specific requirements that must be met before it can be utilized. Manatee County uses the commuting valuation rule when an employee records a vehicle day on their timesheet; this rule values each one-way commute as a \$1.50 benefit. The County then provides supplemental pay to the employee to cover the tax liability for the vehicle fringe benefit.

Overall, our audit found the use of County take-home vehicles to generally be in compliance with the established policies and procedures; however, we did identify the following areas where improvements could be made:

Employees using take-home vehicles did not always have an approved 24-hour request form on file.

(See Area for Improvement #1 on page 4.)

Three (3) department directors approved their own request forms. Additionally, Manatee County's Vehicle Assignment Procedures 601.001 sunset (expired) on July 29, 2021.

(See Area for Improvement #2 on page 4.)

Employees using take-home vehicles were not always properly reporting the fringe benefit.

(See Area for Improvement #3 on page 5.)

Employees are reimbursed for the income and payroll taxes that result from reporting the vehicle fringe benefit, in violation of the County's Personnel Policy. This practice does not appear to have been approved by County Administration or the Board of County Commissioners. In addition, the reimbursement calculation appears to overcompensate the employees.

(See Area for Improvement #4 on page 6.)


Instances were noted where pool vehicle sign-out records were found to be inaccurate and did not document the business purpose or justification for use.

(See Area for Improvement #5 on page 7.)

Other minor audit findings, not included in this report, have been communicated to management or corrected during the audit. We would like to thank Fleet and HR management and staff for their cooperation and the courtesy afforded to our auditors throughout the audit. We appreciate their efforts and timeliness in addressing the issues raised during the audit and seeking solutions to these matters.

AUDIT REPORT AUTHORIZATION

This audit report has been reviewed and authorized by:



Lori Stephens, CPA, CFE, CIG
Inspector General



Angelina "Angel" Colonnese
Clerk of the Circuit Court & Comptroller

AUDIT TEAM:

Glen Riley, CPA, CIGI
Senior Auditor

Bobbie Windham, CIA, CFE, CIGI
Deputy Inspector General

AREA FOR IMPROVEMENT #1 Accounting for Take-Home Vehicles

Reports of assigned take-home vehicles were obtained from Fleet and verified to information obtained independently from each County department. The vehicle assignments were confirmed directly with each department to verify which employees are taking home a vehicle. Seven (7) employees were identified who had an assigned take-home vehicle, but did not have an approved 24-hour request form on file with Fleet.

In addition, payroll records for the period July 16, 2022, through August 26, 2022, were reviewed to identify employees who recorded a take-home vehicle benefit on their timesheets. The employees identified were matched to a 24-hour request form. Four (4) additional employees were found that did not have an approved form on file.

These exceptions appeared to be related to staff not knowing who was taking home a vehicle and not understanding when the 24-hour request form was required. Forms were subsequently completed and obtained for these employees.

Management Action Plan

Annually Fleet sends out vehicle list spreadsheets to all department directors to confirm and/or update Fleet's records of their departments' take-home vehicles. During this process, Fleet management will provide information to the department liaisons to clarify when 24-hour request forms are needed. The Public Works Director will also remind the other directors of the importance of accurately completing these records.

The expected implementation date is July 31, 2024.

AREA FOR IMPROVEMENT #2 Policies, Procedures, and Rules

All 24-hour request forms were obtained and reviewed to determine whether the forms adequately documented the business purpose for using a take-home vehicle, and were properly approved in accordance with Manatee County's Vehicle Assignment Procedures (601.001) and Fleet's Equipment Utilization Policy (18.10). Of the 222 forms tested, we found that three (3) department directors with take-home vehicles approved their own forms. Although the policies and procedures do not address who should approve a director's 24-hour request form, having one individual with both authority and custody over the use of a take-home vehicle creates a lack of segregation of duties.

It was also noted that the 24-hour request form could be improved to better align with Fleet's policy and IRS rules. While the justifications for the employees' needs for a take-home vehicle were documented on the 24-hour request forms and appeared reasonable, they did not include a statement that the duties could not be performed without the capabilities or equipment on-board, or that a cost savings could be demonstrated by taking home a vehicle, as stipulated in the policy. Additionally, IRS publication 5137 requires employers to maintain a written policy statement that implements a policy restricting personal use of employer-provided vehicles. The County's Personnel Policy includes this requirement; however, the employer is also required to have some way to prove that the vehicles are being used in accordance with those rules. This could be accomplished by requiring employees to provide signed statements agreeing to no personal use of County vehicles, other than commuting.

In addition, we noted Procedure 601.001 sunset (expired) on July 29, 2021. The expired procedure is posted on the County intranet.

Management Action Plan

Fleet plans to update its policies and procedures soon and will consider including language regarding proper vehicle authorization for department directors. The updated procedures will be presented to County Administration for posting to the County's intranet.

In addition, Fleet will revise the 24-hour request form to include additional language, checkboxes, and a description line to ensure justifications for the vehicles align with the specifics of the procedures and IRS rules.

The expected implementation date is July 31, 2024.

AREA FOR IMPROVEMENT #3..... Vehicle Fringe Benefit Reporting

IRS Publication 5137 stipulates that if vehicles are taken home more than infrequently (defined as not more than one day per month), the value of the commuting fringe benefits must be included in the employees' taxable wages. Failure to properly value a vehicle fringe benefit could subject Manatee County to an IRS penalty.

Generally, when employees take County vehicles home frequently or routinely they should be recording "Vehicle Day" on their timesheets. The vehicle days calculate a \$3 per day (\$1.50 each way) taxable value to the employee, as per the IRS commuting valuation rule. We tested the pay periods July 16, 2022, through August 26, 2022, by comparing employees identified as authorized to have a take-home vehicle, to employees that recorded vehicle days in the payroll system during this period.

116 employees were identified who were assigned take-home vehicles but did not record any vehicle days during the period. Of those employees, 67 appropriately did not report vehicle days, as they either did not use a take-home vehicle during that time or did not qualify for the \$3 IRS commuting valuation rule. For the remaining 49 employees, we noted the following:

- 39 employees used a take-home vehicle but did not record any vehicle days in the timekeeping system. However, the vehicle they drove may have been excludable from fringe benefits because it was a specialized utility repair truck or a public safety vehicle, as designated in IRS Publication 5137. Additional analysis by the County is required to determine which County vehicles are excludable.
- 10 employees with take-home vehicles appeared to be required to report vehicle days but did not. As noted through interviews, employees did not fully understand the impact of reporting vehicle days or which employees should be reporting the vehicle use.

The IRS commuting valuation rule is only applicable if certain conditions are met, one of which is that the employee is not a "control employee." A control employee in a governmental organization is defined as either an elected official or an employee earning at least \$165,300 for 2022. We tested a sample of 55 employees authorized to take a vehicle

home and identified two (2) as being control employees. Further analysis found they were incorrectly using the commuting rule to value the fringe benefit by reporting vehicle days on their timesheets at various times during the year 2022. IRS Publications 15-B and 5137 provide for other valuation methods to be used when an employee does not qualify for the commuting rule. The wages for these two employees were subsequently adjusted at year-end by the Clerk's Payroll Department using the Annual Lease Value method from IRS publications 15-B and 5137.

Management Action Plan

Fleet will review IRS Publications 15-B and 5137 to identify which vehicles may be excluded as a fringe benefit. Fleet will work with HR to provide information as to which employees should and should not be reporting vehicle days. Also, with the planned update to the vehicle policies and procedures, Fleet will consider including information on when vehicle days are to be reported on timesheets, and what types of vehicles are excludable from fringe benefits.

HR will work with Fleet to ensure employees identified with a reportable take-home vehicle are correctly reporting the vehicle days. If possible, a custom field will be created in ONESolution to identify and track reporting by such employees. HR will provide education to department liaisons on how/when vehicle days should be reported.

HR will monitor and ensure control employees with reportable take-home vehicles are correctly reporting the fringe benefit using an acceptable method under IRS Publications 15-B and 5137, and not using the commuting valuation rule.

The expected implementation date is July 31, 2024.

AREA FOR IMPROVEMENT #4..... Tax Reimbursement

We interviewed Fleet and HR personnel and reviewed ONESolution payroll records to determine which pay codes relate to vehicle fringe benefits. We found codes "Vehicle Allowance" and "Tax Reimbursement for Allowance." The "Vehicle Allowance" code values \$3 of taxable income to an employee's gross wages for each vehicle day reported on a timesheet, as per the IRS commuting value rule.

The pay code "Tax Reimbursement for Allowance" reimburses employees \$1.45 for each vehicle day reported, to cover the federal income and payroll taxes that result from the \$3 vehicle allowance. However, this reimbursement amount represents approximately 48.5% of the \$3 per day allowance, and is based on a 25% federal income tax withholding rate for all employees. This rate appears high for the County workforce as employees earning less than \$170,050 (single) or \$340,100 (married) in 2022 are subject to tax rates less than 25%. Using the 25% rate for employees earning less than these amounts results in additional pay above the actual tax liability incurred, and overcompensates the employees. Current County staff does not know when or why this practice was implemented, and it does not appear to have been approved by the Board of County Commissioners or County Administration. In addition, it appears to contradict the County's Personnel Policy, which states:

Employees who are assigned a County vehicle and operate the vehicle to and from work shall be responsible for the personal tax liability for the value of this use.

Management Action Plan

HR agrees the tax reimbursement is not in line with policy and will consult with County Administration and the County Attorney about discontinuing it. If the current practice is discontinued, the ONESolution payroll programming will need to be updated and tested to remove the reimbursement. Employees would also be notified of the change.

The expected implementation date is July 31, 2024.

AREA FOR IMPROVEMENT #5..... Vehicle Use Logs

During the audit we received two citizen complaints alleging that County vehicles had been used for personal reasons. Based on photographs provided with the complaints, we identified the vehicles used as pool vehicles available for short-term, non-routine use. We inquired with Fleet regarding any GPS data available and found that neither vehicle is equipped with GPS. We obtained and reviewed vehicle sign-out records and interviewed personnel, and found that the business purpose or justification for the vehicle use was not documented in either instance. In addition, one vehicle sign-out log inaccurately reported that the vehicle had been returned, when it had not. The vehicle was subsequently returned to the County, and explanations were provided justifying the use of both vehicles.

Management Action Plan

Fleet will provide education to all County departments on the use of pool vehicles and an example of an adequately documented vehicle sign-out log to ensure the business purpose is stated when a pool vehicle is used. Fleet will also remind staff to ensure that the logs are accurate and vehicles are not signed back in prior to being returned.

The expected implementation date is July 31, 2024.