

**A COMMUNICATION FROM FRED WILLIAMS, CHAIR, AUDIT COMMITTEE,
SUBMITTING A PERFORMANCE AUDIT REPORT REGARDING TAKE-HOME
VEHICLES**

Workflow List:

Atlanta City Council

Completed

07/23/2014 7:46 PM

Finance/Executive Committee

Pending

HISTORY:

07/21/14

Atlanta City Council

REFERRED WITHOUT OBJECTION

RESULT:

REFERRED WITHOUT OBJECTION

Next: 7/30/2014 1:00 PM

RESULT:

REFERRED WITHOUT OBJECTION

Next: 7/30/2014 1:00 PM

Certified by Presiding Officer

Certified by Clerk

**A COMMUNICATION FROM FRED WILLIAMS, CHAIR, AUDIT
COMMITTEE, SUBMITTING A PERFORMANCE AUDIT REPORT
REGARDING TAKE-HOME VEHICLES**

CITY OF ATLANTA

LESLIE WARD

City Auditor
COMMITTEE

CITY AUDITOR'S OFFICE

AUDIT

lward1@atlantaga.gov

Fred Williams, CPA,

Chair

Donald T. Penovi, CPA,

Vice-Chair

68 MITCHELL STREET SW, SUITE 12100

Marion Cameron, CPA

AMANDA NOBLE
Cheryl Allen, CPA

ATLANTA, GEORGIA 30303-0312

Dr.

Deputy City Auditor
Mayor Kasim Reed

{404} 330-6452

Ex Officio:

anoble@atlantaga.gov

FAX: {404} 658-6077

TO: Mayor Reed, President Mitchell, and City Council members

FROM: Fred Williams

Chair, Audit Committee

DATE: July 21, 2014

SUBJECT: Performance Audit: Take-Home Vehicles

The report listed above is attached for your review. Feel free to contact Leslie Ward, City Auditor, if you have questions or want to discuss the report.

Cc:

Michael Geisler, Interim Chief Operating Officer, Mayor's Office

Hans Utz, Deputy Chief Operating Officer, Mayor's Office

Thomas Weyandt, Jr., Chief Operating Officer, Mayor's Office

14-C-5056
Page 2 of 3

Kristin Wilson, Deputy Chief Operating Officer, Mayor's Office

Candace Byrd, Chief of Staff, Mayor's Office

Katrina Taylor, Deputy Chief of Staff, Mayor's Office

Carlos Campos, Director of Communications, Mayor's Office

Anne Torres, Deputy Director of Communications, Mayor's Office

Melissa Mullinax, Office of Communications, Mayor's Office

David Bennett, Senior Policy Advisor, Mayor's Office

Richard Mendoza, Commissioner of Public Works

Cathy Hampton, City Attorney

Peter Andrews, Deputy City Attorney

Nina Hickson, Ethics Officer

J. Anthony Beard, Chief Financial Officer

Gwendolyn Smith, Deputy Chief Financial Officer

John Gaffney, Controller, Department of Finance

Rhonda Dauphin Johnson, Municipal Clerk

Tangela Williams, Director, Council Staff

Dexter Chambers, Director, City Council Office of Communications

Alfred Berry, Policy Analyst and Santana Kempson, Policy Analyst, City Utilities Committee

Audit Committee



CITY OF ATLANTA

LESLIE WARD
City Auditor
lward1@atlantaga.gov

AMANDA NOBLE
Deputy City Auditor
anoble@atlantaga.gov

CITY AUDITOR'S OFFICE

68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE
Fred Williams, CPA, Chair
Donald T. Penovi, CPA, Vice Chair
Marion Cameron, CPA
Dr. Cheryl Allen, CPA
Ex-Officio: Mayor Kasim Reed

TO: Mayor Reed, President Mitchell, and City Council members

FROM: Fred Williams *Fred Williams*
Chair, Audit Committee

DATE: July 21, 2014

SUBJECT: **Performance Audit: Take-Home Vehicles**

The report listed above is attached for your review. Feel free to contact Leslie Ward, City Auditor, if you have questions or want to discuss the report.

Cc:

Michael Geisler, Interim Chief Operating Officer, Mayor's Office
Hans Utz, Deputy Chief Operating Officer, Mayor's Office
Thomas Weyandt, Jr., Chief Operating Officer, Mayor's Office
Kristin Wilson, Deputy Chief Operating Officer, Mayor's Office
Candace Byrd, Chief of Staff, Mayor's Office
Katrina Taylor, Deputy Chief of Staff, Mayor's Office
Carlos Campos, Director of Communications, Mayor's Office
Anne Torres, Deputy Director of Communications, Mayor's Office
Melissa Mullinax, Office of Communications, Mayor's Office
David Bennett, Senior Policy Advisor, Mayor's Office
Richard Mendoza, Commissioner of Public Works
Cathy Hampton, City Attorney
Peter Andrews, Deputy City Attorney
Nina Hickson, Ethics Officer
J. Anthony Beard, Chief Financial Officer
Gwendolyn Smith, Deputy Chief Financial Officer
John Gaffney, Controller, Department of Finance
Rhonda Dauphin Johnson, Municipal Clerk
Tangela Williams, Director, Council Staff
Dexter Chambers, Director, City Council Office of Communications
Alfred Berry, Policy Analyst and Santana Kempson, Policy Analyst, Utilities Committee
Audit Committee

Performance Audit: Take-Home Vehicles

July 2014

City Auditor's Office
City of Atlanta

File #13.09

Attachment: Take-Home Vehicles Final 7-21-14 (14-C-5056 : Take-Home Vehicles Audit Report)



CITY OF ATLANTA

City Auditor's Office
Leslie Ward, City Auditor
404.330.6452

June 2014

Why We Did This Audit

In our 2006 performance audit, *Payroll Tax Compliance*, and again in our 2010 follow-up, we found the city had failed to track personal use of city-owned vehicles and report employees' personal vehicle use to the IRS (Internal Revenue Service). We recommended that the chief financial officer develop a system track and report the personal use of city vehicles, consistent with IRS requirements, and propose legislation to align city code with these requirements. Our 2012 follow-up found that the city had implemented the IRS commuting rule for reporting employees' use of city-owned vehicles, but the policy did not specify enforcement mechanisms.

What We Recommended

To strengthen controls over the use of city vehicles, we recommend the chief operating officer:

- Consider distributing a vehicle allowance to employees who don't need specialized vehicles.
- Track the use of city vehicles, using methods such as maintaining usage logs and installing GPS on all city vehicles.
- Enforce the city's parking requirements that require vehicles to be parked in specific lots when not in use.
- Require authorized employees to report all city vehicle use, including zero use, to finance during the tax year.

We recommend the commissioner of public works:

- Complete and maintain an inventory of all city vehicles to determine the vehicle purpose, department, and assignment.

We recommend the chief financial officer:

- Make the necessary adjustments to 2013 IRS reporting issues and address them for the 2014 reporting year.
- Apply the appropriate IRS income calculation method to all employees.

For more information regarding this report, please contact Amanda Noble at 404.330.6750 or anoble@atlantaga.gov

Performance Audit:

Take-Home Vehicles

What We Found

Weak controls over use of city vehicles put the city at risk of underreporting taxable fringe benefit income to the IRS. While 53 employees, excluding police and fire, were authorized to take vehicles home in 2013, unauthorized use of city vehicles could be widespread. Five departments accounting for over 77% of the city's passenger vehicles require no logs of vehicle use. In the event of misuse, the city has little in the way of methods to track vehicle use; The Department of Watershed Management has installed GPS equipment on 60% of its passenger vehicles, but no other department has a way to track vehicle locations. Further, most vehicles are not assigned to a designated parking location when not in use, so managers have no way of knowing where a car should be. More than 20% of Department of Watershed Management vehicles with GPS that were not assigned for overnight use showed stops of at least 12 hours outside of the city and outside of department facilities in 2013.

Recent changes to the city's vehicle use policy appear to contradict the IRS commuting rule for determining the benefit of personal use of city vehicles. The May 2013 revision allows "intermittent personal use" of city vehicles, while the commuting rule requires the employer to establish a written policy that prohibits personal use other than commuting. Other changes were made to the policy to reduce costs but have not been enforced, such as limits on the distance authorized employees can commute to and from city hall.

The city uses four separate sets of records of authorization to take vehicles home. Discrepancies among these records led to underreporting of taxable fringe benefits for authorized users in 2012, which we reported to finance.

We found in our 2006 *Payroll Tax Compliance Audit* that Section 2-1715 of the City Code of Ordinances, last updated in 1977, did not address tax implications and contradicted IRS regulations. We recommended that the chief financial officer propose legislation to amend the city code on the personal use of city-owned vehicles to comply with IRS regulations. The recommendation has yet to be implemented, and we repeat it in this report.

Summary of Management Responses

Recommendation #1:	The chief operating officer should consider distributing a vehicle allowance to employees who are required to report during emergency response situations but who are not required to drive specialized vehicles.	
Response & Proposed Action:	We will complete an assessment by department to determine potential implementation.	Agree
Timeframe:	September 1, 2014	
Recommendation #2:	The chief operating officer should revise the city's vehicle use policy to require departments to create and maintain vehicle use logs, and to send this information to finance.	
Response & Proposed Action:	We will implement vehicle logs for take-home vehicles.	Partially Agree
Timeframe:	September 1, 2014	
Recommendation #3:	The chief operating officer should ensure that department heads periodically review all available vehicle use data to identify possible misuse and noncompliance with city policy.	
Response & Proposed Action:	We will implement a review of all assigned vehicle data.	Agree
Timeframe:	December 1, 2014	
Recommendation #4:	The chief operating officer should direct departments to enforce the city's policy requirements for end-of-shift parking of vehicles for on-duty use.	
Response & Proposed Action:	We will designate pool parking locations for assigned departmental vehicles.	Agree
Timeframe:	August 1, 2014	
Recommendation #5:	The chief operating officer should explore the costs and benefits of installing GPS on all vehicles.	
Response & Proposed Action:	Risk Management previously conducted a drive camera pilot and is currently in the RFP process for a drive camera/GPS combination.	Agree
Timeframe:	July 1, 2015	
Recommendation #6:	The chief operating officer should propose revisions to the city code to comply with IRS regulations and to meet city business requirements.	
Response & Proposed Action:	We will propose revisions to the city code.	Agree
Timeframe:	December 1, 2014	
Recommendation #7:	The commissioner of public works should immediately complete an inventory of all city vehicles to determine the vehicle purpose, department, and assignment and update the fleet database. Moving forward, the commissioner of public works should update all records annually.	
Response & Proposed Action:	We will implement a physical vehicle inventory for all city vehicles.	Agree
Timeframe:	July 30, 2014	
Recommendation #8:	We recommend the chief financial officer make the necessary adjustments to 2013 IRS reporting issues and address them for the 2014 reporting year.	
Response & Proposed Action:	Finance will ensure the appropriate adjustments are made.	Agree
Timeframe:	December 2014	
Recommendation #9:	We recommend the chief financial officer apply the appropriate IRS valuation method to all employees.	
Response & Proposed Action:	Finance will ensure that employees who are using City vehicles for commuting purposes have the appropriate amount of earnings assessed.	Agree
Timeframe:	December 2014	



CITY OF ATLANTA

LESLIE WARD

City Auditor
lward1@atlantaga.gov

AMANDA NOBLE

Deputy City Auditor
anoble@atlantaga.gov

CITY AUDITOR'S OFFICE

68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE

Fred Williams, CPA, Chair
Donald T. Penovi, CPA, Vice Chair
Marion Cameron, CPA
Dr. Cheryl Allen, CPA
Ex-Officio: Mayor Kasim Reed

July 21, 2014

Honorable Mayor and Members of the City Council:

We conducted this audit of take-home vehicles because of our previous findings of noncompliance with IRS regulations and incomplete implementation of recommended corrective actions. In 2006, our audit of payroll tax compliance reported that the city did not track personal use of city-owned vehicles and report it to the IRS (Internal Revenue Service) as required. Audit follow-up in 2010 showed no correction of this finding. Our 2012 follow-up found that the city had begun reporting employees' taxable use of city vehicles. City policy still did not, however, include enforcement methods, and the city code revisions we recommended had not been proposed or adopted.

The city's continued weak controls over the use of city vehicles put the city at risk of unauthorized commuting and other personal use, as well as underreporting of taxable fringe benefit income. Departments with most of the city's vehicles (excluding police and fire) do not require employees to record business and personal use of vehicles and have no other method of tracking vehicle use and location. Further, current city policy invalidates the finance department's valuation method for 2013 IRS reporting because it allows some personal use and is not allowed for employees with salaries above a specified limit.

For employees who respond to emergencies but do not require use of a specialized vehicle, the city should substitute a vehicle allowance, reducing the administrative burden of tax reporting and the costs of ownership. We make additional recommendations to inventory all city vehicles, require usage logs, revise city policy and city code provisions for consistency with IRS rules, consider expanded use of GPS to monitor compliance, and use the appropriate valuation methods to correct 2013 IRS reporting and to make 2014 and subsequent reports of taxable use of city vehicles. The chief operating officer, the chief financial officer, and the commissioner of public works agreed with all recommendations and propose to implement them within the next 12 months or sooner.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The audit team included Christopher Armstead, Rhonda Sadler, Damien Berahzer, and Amanda Noble.

Leslie Ward
City Auditor

Fred Williams
Audit Committee Chair

Take Home Vehicles

Table of Contents

- Introduction..... 1
 - Background 1
 - Audit Objectives..... 5
 - Scope and Methodology 5
- Findings and Analysis 7
 - City Oversight of Vehicle Use Is Limited 7
 - Unauthorized Use of City Vehicles Could Be Widespread..... 8
 - Recent Changes to City Vehicle Use Policy Make Use of IRS Commuting Rule Invalid . 12
 - City Underreported Taxable Fringe Benefits in 2012..... 13
 - Policy Requirements for Authorizing Users Were Not Enforced..... 17
 - City Code Provisions Remain Outdated..... 17
- Recommendations 19
- Appendices 21
 - Appendix A
 - Management Review and Response to Audit Recommendations 23

List of Exhibits

- Exhibit 1 IRS Methods for Valuing the Benefit of Personal Use of Employer Vehicles..... 2
- Exhibit 2 Excerpt from the Overnight-Vehicle Authorization Form 4
- Exhibit 3 Number of City Passenger Vehicles and Employees Authorized for Overnight Use 4
- Exhibit 4 City Passenger Vehicles and Number of Parking Locations 9
- Exhibit 5 Number of Stops and Vehicles Where Selected Vehicles Were Parked Outside of the City by Minimum Length of Stop 10
- Exhibit 6 Residential Areas Where Selected Vehicles Were Parked Outside of the City for at least 36 Hours 11
- Exhibit 7 Value of Taxable Benefit Using Different Valuation Rules..... 13
- Exhibit 8 Flow of Authorization Forms among Departments 14
- Exhibit 9 Employees Authorized for Overnight Use of Vehicles in 2012, with No Use Reported 16

Introduction

We undertook this audit because in our 2006 performance audit, *Payroll Tax Compliance*, we found the city had failed to track personal use of city-owned vehicles and report employees' personal vehicle use to the IRS (Internal Revenue Service). We recommended that the chief financial officer develop procedures to accurately track and report the personal use of city vehicles, consistent with IRS requirements. We also recommended that the chief financial officer propose legislation to align city code requirements covering personal use of city-owned vehicles with IRS regulations. We reiterated these recommendations in our 2010 follow-up audit.

We followed up on the implementation status of these recommendations again in 2012 and reported that the city had implemented the IRS commuting rule for reporting employees' use of city-owned vehicles, but the policy did not specify enforcement mechanisms. The Audit Committee approved an audit of the city's take home vehicle program for our annual audit plan. The city has yet to revise city code provisions regarding personal use of city-owned vehicles.

Background

Fringe benefit income is subject to employment taxes. IRS regulations state that a fringe benefit is a form of pay for the performance of services. As such, any fringe benefit an employer provides is taxable and must be included in the employee's pay, unless the law specifically excludes it. IRS regulations provide a *de minimis* (minimal) exception for some fringe benefits, defined as a benefit of so little value that to account for it would be too burdensome, such as occasional use of an employer copying machine.

Personal use of most city vehicles is taxable income. An employee's personal use of a city-owned vehicle is a fringe benefit that IRS regulations treat as taxable income. The city is responsible for tracking personal use of city vehicles, reporting the value of the use as income, and withholding employment taxes on the income. Failure to properly report employees' income and withhold employment taxes can result in fines and penalties.

IRS regulations exempt personal use of certain types of vehicles from reporting and withholding requirements. IRS regulations define a qualified nonpersonal-use vehicle as one that is unlikely to be used more than a minimal amount for personal purposes. For example, clearly marked police or fire vehicles, flatbed trucks, school buses, and ambulances are qualified nonpersonal-use vehicles. Commuting in these vehicles is exempt from fringe benefit reporting as long as the employer provides the vehicles to employees to conduct their jobs. Otherwise, commuting to work is considered personal use regardless of the vehicle type and must be reported to the IRS.

The IRS provides four different methods to determine the value of fringe benefits for personal use of an employer's vehicle, summarized in Exhibit 1.

Exhibit 1 IRS Methods for Valuing the Benefit of Personal Use of Employer Vehicles

Commuting Rule

- Employer provides vehicle to employee for use in its trade or business
- Employer requires employee to commute for noncompensatory business reasons in the vehicle
- Employer establishes a written policy prohibiting personal use other than for commuting or for de minimis personal use
- The employee does not use the vehicle for personal purposes other than commuting or de minimis use
- The employee is not a control employee. A government control employee is either an elected official or an employee whose compensation exceeded \$145,700 in 2012.
- The taxable benefit valuation is calculated by multiplying each one-way commute by \$1.50
- The taxable benefit valuation includes the value of the vehicle's maintenance and employer provided fuel costs.

Cents-Per-Mile Rule

- Employer reasonably expects the vehicle to be regularly used in its trade or business, or
- Vehicle meets the mileage test. The mileage test requires the vehicle to be driven at least 10,000 miles during the year and the vehicle must be used primarily by employees.
- The vehicle's value at the time of assignment does not exceed \$15,900 for passenger automobiles or \$16,700 for trucks and vans for 2012
- The benefit valuation is calculated by multiplying the standard mileage rate by the total miles the employee drives for personal purposes
- The taxable benefit valuation includes the value of the vehicle's maintenance, insurance, and employer provided fuel costs. If the fuel is not provided by the employer, the cents per-mile rate may be reduced by no more than 5.5 cents or an amount specified by any applicable Revenue Ruling.

Lease Value Rule

- The benefit valuation is calculated by determining the fair market value, assigning the applicable lease value from the IRS Annual Lease Value table, and multiplying the annual lease value by the percentage of personal miles out of total miles driven by the employee
- The employee must substantiate business use. Written records made at the time of vehicle use, such as logging the time and place and business purpose of the travel, are the best evidence.
- The taxable benefits of employer provided fuel and maintenance are calculated separately
- The employer must use the lease value rule from the first day the vehicle is made available to the employee unless the employer previously applied the commuting rule or the cents-per-mile rules and those rules no longer apply.

General Valuation Rule

- Vehicle benefit does not qualify for an exclusion or other valuation rule
- The benefit valuation is calculated based on the fair market value (FMV) of the vehicle at the time of purchase. (Generally, the FMV is the amount a person would pay to lease the vehicle from a third party in the purchase area. That amount includes all purchase expenses, such as sales tax and title fees.)
- The taxable benefits of employer provided fuel and maintenance are calculated separately.

Source: Internal Revenue Service Publication 15-B 2013 Employer's Tax Guide to Fringe Benefits

The Department of Finance used the IRS commuting rule to calculate the value of personal use of city vehicles in 2011 and 2012. Under the commuting rule, finance multiplies the number of commuting days reported by departments for each authorized employee by \$3.00 to determine the value of the personal use. This value is recorded on the employee's W-2. A commuting day consists of one-way to work and one-way back home.

The city allows authorized employees to take city vehicles home. City policy outlines the authorization process and requires:

- employees, except for the Mayor, Chief of Police, Fire Chief, and Commissioner of Corrections, to be designated as first responders for emergency incidents to qualify for a take-home vehicle
- employees who are authorized to drive take-home vehicles to live within 25 miles of City Hall
- authorization forms for first responders¹ to list the number of emergency callbacks in the previous six months
- authorized employees to limit weekly fuel consumption to 13 gallons
- all city vehicles to be visibly marked unless the vehicle is exclusively used by the mayor, chief operating officer, chief of staff, or department heads in the administration of their duties

The policy permits the Atlanta Police Department to authorize sworn officers to drive city vehicles home overnight for public safety purposes, consistent with IRS regulations. The IRS regulations exempt police and fire vehicles from reporting.

Authorization for take-home cars. City policy requires employees to complete overnight-vehicle authorization forms. The form records the employee's name, address, and information about the assigned vehicle, first responder status, and justification for the authorization (see Exhibit 2). Twice a year, the Department of Public Works' Office of Fleet Services collects the authorization forms and forwards them to the Department of Human Resources, which compiles the forms and forwards them to the city's chief operating officer for approval.

¹ The term "*first responder*" refers to those employees who in the early stages of an emergency incident are responsible for the protection and preservation of life, property, evidence or infrastructure and have been designated the primary individual responsible for managing and providing immediate support services during prevention, response, and recovery operations.

Exhibit 2 Excerpt from the Overnight-Vehicle Authorization Form

- Application for Initial Authorization
- April 1st through October 1st
- Application for Semi-Annual Rectification: April 1, 20 through October 1, 20
- Emergency / Temporary Use From _____ to _____
- Cancel Overnight Use Authorization

Last Name		First Name	Middle Initial	Department/Bureau/Division	
Job Class (Title)		Working Title (Function)		Cost Center	Section/Unit
Employee No.	Work Location	Vehicle No.	Year/Make/Model	Is this a marked vehicle? Yes () No ()	
Residence (Address, City & County)		Contact #	One-way Mileage (Residence/ Work)	First Responder? Yes () No ()	
REGULAR OVERNIGHT USE JUSTIFICATION					
Authorization:		Odometer Reading	Previous total miles during 6 month period	Sworn Police Officer <i>must reside in Atlanta City Limits</i>	
Mayor ()	Correction Chief ()			Yes () No ()	
Police Chief ()	Fire Chief ()				
First Responder Justification <i>Please explain</i>			Emergency/Temporary Use Justification <i>Please explain</i>		

Source: Department of Human Resources, City of Atlanta Vehicle Authorization Form

As of August 2013, 53 employees, excluding the police and fire departments, were authorized to take city vehicles home. Excluding police and fire, the city had 1,076 passenger vehicles, including sedans, light trucks and some types of vans. About 5% of these cars were assigned as take-home vehicles. The Department of Watershed Management had the largest fleet and the highest number of employees authorized to take vehicles home (see Exhibit 3).

Exhibit 3 Number of City Passenger Vehicles and Employees Authorized for Overnight Use

Department	Employees Authorized for Take-Home Vehicles	Cargo Van	Compact Pick up truck	Heavy duty truck	Mini van	Sedan	SUV	Vehicle Type Unknown	Total Passenger Vehicles
Watershed Management	20	27	122	170	29	87	126	2	563
Public Works	3	8	71	30	4	43	9	0	165
Aviation	10	8	24	37	7	18	51	0	145
Parks and Recreation	8	5	26	44	0	6	14	3	98
Planning	0	0	44	0	0	6	1	0	51
Mayor's Office	2	4	3	1	1	13	2	1	25
Corrections	5	0	2	0	0	6	1	0	9
Judicial	0	0	0	0	2	3	0	0	5
Information Technology	0	2	0	0	2	0	1	0	5
Finance	0	0	1	0	0	3	0	0	4
Solicitor	0	0	0	0	0	4	0	0	4
Human Resources	5	0	0	0	0	2	0	0	2
Total	53	54	293	282	45	191	205	6	1,076

Source: Fleet Services Asset Works and department records

Attachment: Take-Home Vehicles Final 7-21-14 (14-C-5056 : Take-Home Vehicles Audit Report)

Audit Objectives

This report addresses the following objective:

- Do current practices regarding take-home vehicles comply with city and IRS requirements?
-

Scope and Methodology

Our analysis of fleet data focuses mostly on fiscal years 2013 and 2014. We excluded Atlanta Police Department and Atlanta Fire Rescue Department vehicles from our review because they are exempt from IRS requirements for reporting personal use of vehicles as taxable income.

Our audit methods included:

- interviewing staff in city departments to determine the employees who are assigned city-owned vehicles
- reviewing and analyzing city records for IRS reporting of benefits for employees with city-owned vehicles
- evaluating the city vehicle assignment process against the city policy and city code
- compiling and analyzing the GPS locations of Department of Watershed Management vehicles
- comparing GPS vehicle coordinates to satellite imagery
- observing city vehicles and parking locations

We conducted this audit in accordance with generally accepted government auditing standards. Generally accepted government auditing 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.

A performance audit is an objective analysis of sufficient, appropriate evidence to assess the performance of an organization, program, activity, or function. Performance audits provide assurance or conclusions to help management and those charged

with governance improve program performance and operations, reduce costs, facilitate decision-making and contribute to public accountability. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.²

We conducted this performance audit pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the City Auditor's Office and outlines their primary duties. The Audit Committee reviewed our audit scope as communicated in the *Letter to Mayor and Council on FY14 audit plan*.

²Comptroller General of the United States, *Government Auditing Standards*, Washington, DC: U.S. Government Accountability Office, 2011, p. 17-18.

Findings and Analysis

City Oversight of Vehicle Use Is Limited

Weak controls over use of city vehicles put the city at risk of underreporting taxable fringe benefit income to the IRS. While 53 employees, excluding police and fire, were authorized to take vehicles home in 2013, unauthorized use of city vehicles could be widespread. Five departments accounting for over 77% of the city's passenger vehicles require no logs of vehicle use and, except for the Department of Watershed Management, have no mechanism for tracking vehicle locations. Most vehicles are not assigned to a designated parking location when not in use and most departments reported having multiple parking locations. More than 20% of Department of Watershed Management vehicles with GPS that were not assigned for overnight use showed stops of at least 12 hours outside of the city and outside of department facilities in 2013.

To strengthen controls over the use of city vehicles and to ensure they are used for official city business, we recommend the commissioner of public works complete an inventory of all city vehicles to determine the vehicle purpose, assignment, and department and update the fleet database. Moving forward, the commissioner of public works should recertify all vehicles annually. We recommend the chief operating officer revise the city's vehicle use policy to require departments to create and maintain vehicle logs, ensure that department heads periodically review logs against fuel records within the fleet application, and ensure that vehicles are assigned a designated parking location when not in use. The chief operating officer should explore the costs and benefits of installing GPS on all city vehicles. Additionally, the chief operating officer should require departments to monitor and analyze all available vehicle use data, including, but not limited to, GPS, fuel records, and vehicle use logs for misuse and compliance with city policy.

Recent changes to the city's vehicle use policy appear to invalidate the applicability of the IRS commuting rule for valuing the benefit of personal use of city vehicles. The May 2013 revision allows "intermittent personal use" of city vehicles, while the commuting rule requires the employer to establish a written policy that prohibits personal use other than commuting. Other changes

apparently intended to reduce the cost of take-home cars were not enforced.

Discrepancies between different sets of records could allow authorized use to be unreported. We found specific errors and omissions in 2012 reporting of taxable fringe benefits for authorized users, which we reported to the Department of Finance.

City code provisions regarding personal use of city-owned vehicles were last updated in 1977 and our previous recommendation to propose legislation to amend the code has yet to be implemented. We recommend that the chief operating officer propose revisions to the city code to comply with IRS regulations and to meet city business requirements.

Unauthorized Use of City Vehicles Could Be Widespread

Departments may be unaware of employees' personal use of city vehicles. Except for the Department of Corrections, the departments we surveyed do not require employees to log their business or personal use of vehicles. The Department of Watershed Management has installed GPS equipment on 60% of its passenger vehicles, but no other department has a way to track vehicle locations. Further, most vehicles are not assigned to a designated parking location when not in use, so managers have no way of knowing where a car should be.

Vehicle stop records indicate possible misuse. Our analysis of GPS records for 64 Department of Watershed Management vehicles not assigned as take-home cars identified 24 vehicles (37.5%) that were parked in residential areas outside the city for durations of at least 36 hours. It doesn't appear that the department has used this data to check compliance with the vehicle use policy. Additionally, two city vehicle misuse complaints substantiated by the ethics office indicate that unauthorized use is occurring.

City departments may not be aware of where and when vehicles are in use. We asked six departments with take-home vehicles whether they keep logs to track vehicle use. Five of the six departments, accounting for over 80% of the city's take home vehicles and 77% of passenger vehicles, do not require employees to log their vehicle use. The Department of Corrections keeps logs for business use of its vehicles. Without logs, the city cannot distinguish when the use is for business or personal reasons. The city has over 1,000 vehicles excluding police and fire that could be

driven for personal use. While the Department of Watershed Management has installed GPS equipment on over one-third of its total fleet, no other department has a way to track vehicle locations. City policy requires all city vehicles assigned for on duty use to be parked at a secure pre-designated city parking location at the end of each shift. Most city vehicles are not assigned to a designated parking lot, and most departments reported having multiple parking locations (see Exhibit 4).

Exhibit 4 City Passenger Vehicles and Number of Parking Locations

Department	Passenger Vehicles	Parking Locations
Watershed Management	563	74
Parks and Recreation	98	22
Public Works	165	6
Information Technology	5	5
Planning	51	4
Aviation	145	3
Corrections	9	1
Human Resources	2	1
Mayor's Office	25	No response
Judicial	5	No response
Finance	4	No response
Solicitor	4	No response
Total	1,076	

Source: Fleet Services Asset Works and department records

Without logs or tracking the departments cannot ensure that vehicles are used for authorized purposes. We recommend that the chief operating officer direct departments to create and maintain logs to track business and personal vehicle use. Logs should at least include information such as driver, location, mileage, time of day, time in/out, and reason of use. We also recommend the chief operating officer direct departments to enforce the city's policy requirements for end-of-shift parking of vehicles assigned for on-duty use.

In our Controls over Fuel Inventory (2012) audit, we found that control weaknesses increased the risk of unauthorized access to fuel and decreased fleet services' ability to track who was dispensing fuel. We recommended that the city strengthen controls by investing in RF (radio frequency) Vehicle ID technology and repurposing its existing fuel cards to identify the assigned employee. Implementing these fuel controls would also strengthen oversight of take-home vehicles because fleet services would be able to monitor

compliance with the city’s vehicle use policy using fuel records. We recommend the chief operating officer ensure that department heads periodically review logs against fuel records within the fleet application.

Vehicle activity flags probable unauthorized use of city vehicles.

We reviewed GPS data recorded in 2013 for 457 Department of Watershed Management vehicles not assigned for take-home use; 411 of the vehicles had stops outside of city limits and outside of watershed management facilities during the year. Of these, 97 vehicles (24%) recorded 936 stops of at least 12 hours (see Exhibit 5). GPS data showed that 64 vehicles had 210 stops of at least 36 hours outside city limits and watershed management facilities.

Exhibit 5 Number of Stops and Vehicles Where Selected Vehicles Were Parked Outside of the City by Minimum Length of Stop

Hours	Number of Vehicles	Number of Stops
12	97	936
18	86	372
24	68	254
30	64	225
36	64	210

Source: Department of Watershed Management GIS

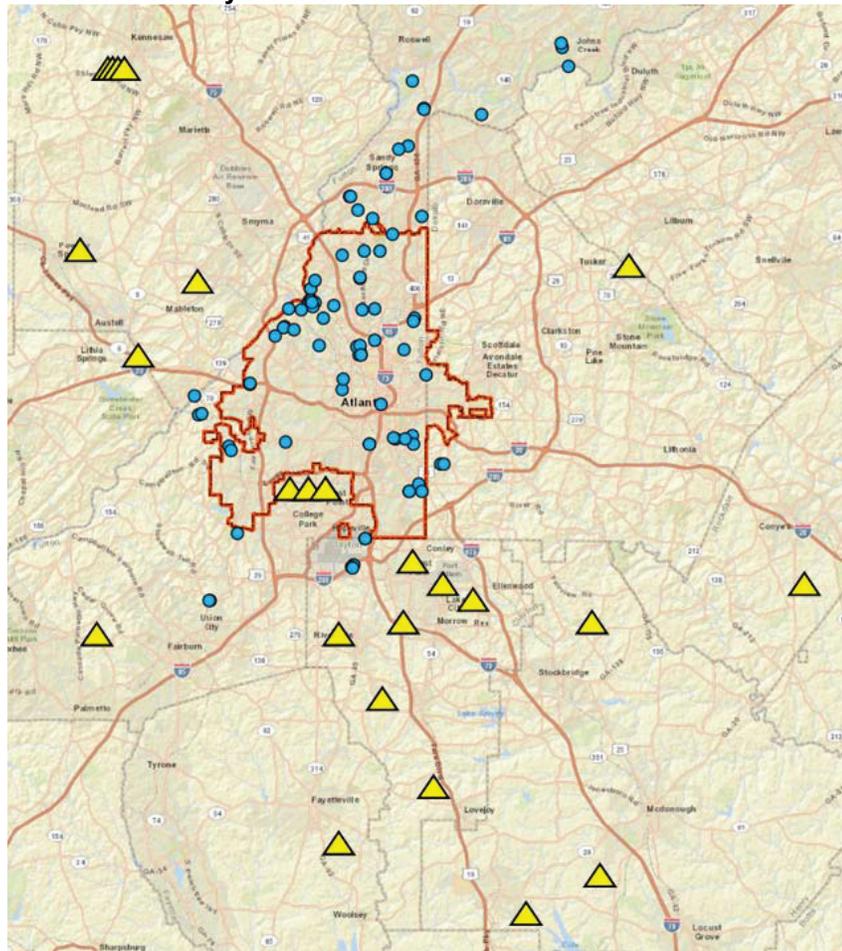
We reviewed the locations of a judgmental sample of 64 of the longer stops (one per car) and confirmed that 24 vehicles were parked in a residential area outside the city for at least 36 hours. The remaining vehicles were parked in either industrial or indeterminate areas.

Exhibit 6 shows the locations of these extended stops. The orange outline shows the city limits. The blue dots represent Department of Watershed Management facilities. The yellow triangles show where the vehicles were parked. These stops appear to indicate unauthorized use because there are no business reasons for the cars to be in these areas. Four different vehicles were parked at the same address in Kennesaw, which corresponds to the home address of an employee who is not authorized to take a vehicle home.

While our search criteria identified extended stops in residential areas outside of the city, unauthorized use could also occur within the city, in mixed use or commercial areas, and in shorter stops.

Investigations substantiated the only two hotline complaints received by the ethics office regarding employees' unauthorized use of city vehicles. We asked the ethics office to provide us with any complaints related to take-home vehicles. The office provided two complaints to us. In 2011 and 2012, the city investigated prior cases of unauthorized employees taking vehicles home. One employee, although authorized to drive a city vehicle during normal business hours, kept a vehicle overnight without the required written authorization. Another employee drove a vehicle home and kept it overnight after the department revoked the employee's authorization for overnight vehicles. In both instances, the employees agreed that they had violated the city's ethics code and paid civil penalties of \$200 and \$100, respectively.

Exhibit 6 Residential Areas Where Selected Vehicles Were Parked Outside of the City for at least 36 Hours



Source: Department of Watershed Management GIS

Lack of records on use of city vehicles prevents us from estimating the magnitude of unauthorized use. Because we found red flags in

our limited testing, we concluded that unauthorized use could be widespread.

We recommend the commissioner of public works complete an inventory of all city vehicles to determine the vehicle purpose, department, and assignment and update the fleet database. Moving forward, the commissioner of public works should recertify all vehicles annually. The chief operating officer should explore the costs and benefits of installing GPS on all city vehicles. Jurisdictions including Jersey City, New Jersey, Pampa, Texas, Glen Cove, New York, Bernalillo County, New Mexico, Dallas County, Texas, and Denver, Colorado have seen reductions in vehicle idling times, fuel usage, and unauthorized stops after installing GPS devices. Additionally, the chief operating officer should require departments to monitor and analyze all available vehicle use data, including, but not limited to, GPS, fuel records, and vehicle use logs for misuse and compliance with city policy.

Recent Changes to City Vehicle Use Policy Make Use of IRS Commuting Rule Invalid

The city's vehicle use policy was revised in May 2013 and now permits "intermittent personal use" of city vehicles. The previous policy prohibited personal use of city-owned vehicles. Although the current policy generally prohibits personal use of city vehicles, the section governing the take-home vehicles allows for intermittent personal use on an as needed basis. Allowing even "intermittent" personal use appears to invalidate the applicability of the IRS commuting rule for calculating the value of the taxable fringe benefit.

The commuting rule requires the employer to establish a written policy that prohibits personal use other than for commuting or for minimal personal use. The IRS defines minimal personal use as use that has so little value that accounting for it would be unreasonable or administratively impractical. An example is conducting a personal errand on the way between a business delivery and the employee's home. The city's allowance for intermittent personal use "as needed" implies greater than minimal use. The city's policy lacks clear guidance restricting "as needed" use to the limitations of the IRS's minimal use provisions.

The commuting rule is the easiest to calculate and results in the lowest estimate of the value of the taxable fringe benefit, but also has the least flexible requirements for employers and employees.

Exhibit 7 compares the taxable benefit calculated for one authorized employee driving a Ford Explorer SUV and living over 30 miles from City Hall, assuming the personal use is mostly for commuting, the fuel was provided by the employer, and that the employee commuted 261 days in the year. In this example, the difference between the amount calculated with the commuting rule and the amounts calculated with the other methods is between about \$8,000 and \$10,000 in additional taxable income. In this specific case, however, the general valuation rule should be applied because the value of the vehicle exceeded \$26,000 when the city assigned it for overnight use, and because the city did not initially apply the lease value rule.

Exhibit 7 Value of Taxable Benefit Using Different Valuation Rules

Commuting	Lease Value	Cents Per Mile	General Value
\$783	\$8,900	\$10,647	\$10,789

Source: Calculations based on Internal Revenue Service Publication 15-B 2013 Employer's Tax Guide to Fringe Benefits

Under the current policy, using the commuting rule to calculate the taxable benefit would result in the city underreporting income and failing to withhold adequate employment taxes. We recommended in an interim memo to the chief financial officer, dated October 2013, that the department apply appropriate valuation methods for all employees.

We noted in our 2006 report that the city could simplify its reporting requirements by encouraging employees to use their personal vehicles for city business and reimbursing them for mileage or, when warranted by the extent of business use, by granting employees a vehicle allowance instead of an assigned city vehicle. The chief financial officer at the time concurred, but did not have purview to initiate a policy change and the chief operating officer at the time did not formally respond to our recommendation. We recommend the chief operating officer consider distributing a vehicle allowance to employees who are required to report during emergency response situations but who are not required to drive specialized vehicles.

City Underreported Taxable Fringe Benefits in 2012

Discrepancies between different sets of records could allow authorized use to be unreported. Finance improperly calculated fringe benefits for 2012. We found specific errors and omissions in 2012 reporting of taxable fringe benefits for authorized users that we reported to the Department of Finance in October 2013. We

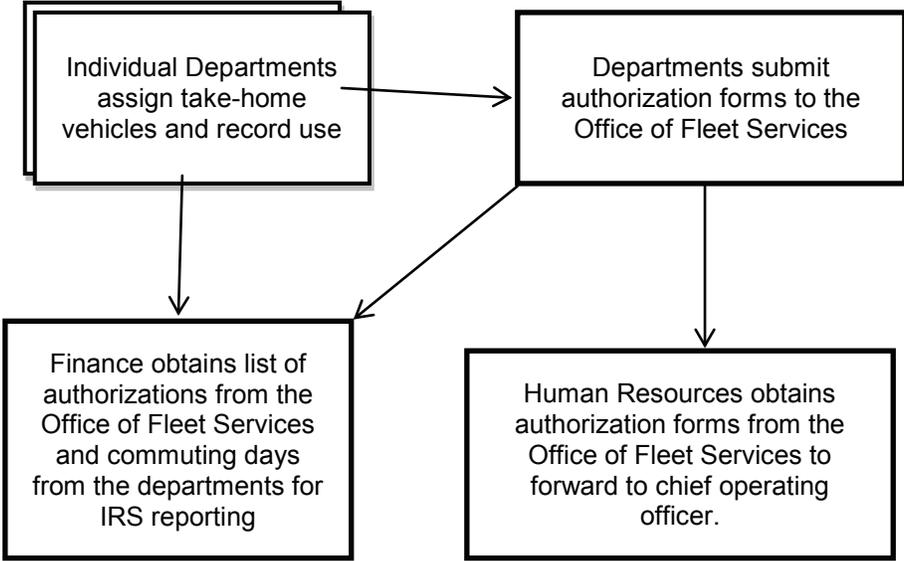
recommended the chief financial officer make any necessary adjustments to 2013 IRS reporting and address the issues for the 2014 reporting year.

Decentralized processes allow inconsistencies in records. The city maintains four sets of records of authorization to take vehicles home:

- individual departments are responsible for assigning take-home vehicles to employees and keeping records
- Department of Human Resources compiles vehicle authorization forms and submits them to the chief operating officer for approval
- Office of Fleet Services maintains records of all city vehicles, including those authorized for take home use
- Department of Finance reports employees' vehicle take-home benefits to the IRS

Exhibit 8 illustrates the flow of authorization information among departments. No one department owns the responsibility of ensuring the information is accurate and the necessary personnel actions are enforced. We reviewed records for 2013 and we identified discrepancies in the records kept in the different locations. The Department of Public Works' fleet application indicates that 66 vehicles were assigned as take-home vehicles. In contrast, the Department of Human Resources recorded 56 authorizations and the departments self-reported only 53 total authorizations.

Exhibit 8 Flow of Authorization Forms among Departments



Source: Auditor’s Analysis of decentralized city processes

The Department of Finance relies on other departments to manage and report employees’ use of city take-home vehicles. Lack of coordination and lack of accurate records could allow authorized use to be unreported.

Finance applied the IRS commuting rule to three ineligible employees. The IRS prohibits employers from using the commuting rule to calculate the value of a control employee’s benefit derived from the use of an automobile. The IRS publication defines control employees for government employers as either:

- an elected official or
- an employee earning over \$145,700 in 2012

Our review of the city’s 2012 IRS reporting identified three employees earning more than the \$145,700 limit specified by the IRS.

The city may have omitted fringe benefits for three employees with vehicle use. We identified two public works employees and one aviation employee for whom the departments recorded commuting days in 2012, but had no vehicle benefit reported in 2012.

Departments submitted no reports of vehicle use for 24 of 81 employees who were authorized to take vehicles home during 2012. Failure to submit commuting records, including zero use, for all authorized employees results in the submission of incomplete information to finance and thus the IRS. It is unclear whether these

Attachment: Take-Home Vehicles Final 7-21-14 (14-C-5056 : Take-Home Vehicles Audit Report)

individuals commuted using city vehicles. Exhibit 9 shows the distribution of these employees by department.

Exhibit 9 Employees Authorized for Overnight Use of Vehicles in 2012, with No Use Reported

Department	Number of Authorized Employees with No Use Reported
Watershed Management	11
Corrections	5
Executive Offices	4
Parks	2
Aviation	1
Public Works	1
TOTAL	24

Source: 2012 Fleet Services Authorization Forms

To assist the city in reporting accurately to the IRS for 2013, we provided the chief financial officer a detailed description of the inaccurate and incomplete 2012 IRS reporting. This report identified the employees:

- ineligible for the applied IRS rule
- the Department of Finance failed to report to the IRS
- who may have derived benefits but their respective departments failed to report

We recommended the chief financial officer should make the necessary adjustments to 2012 IRS reporting issues and address them for the 2013 reporting year. We also recommended the Department of Finance apply the appropriate IRS valuation method to all employees. In addition, we recommended the chief operating officer require all departments to report all commutes, including zero use, to Finance for all authorized employees during the tax year. We did not review the city's IRS reporting of personal use of city vehicle fringe benefits for 2013.

We also noted questionable information that city departments submitted to the Department of Finance, suggesting that departments are not tracking vehicle use. For example, the Department of Aviation reported that all ten authorized employees commuted 335 days in 2012, which is equivalent to working more than 6 days per week. One of the employees left city employment in November 2012 and couldn't have commuted 335 days. It is unlikely the remaining aviation employees commuted the same number of work days because of differences in use of leave.

Policy Requirements for Authorizing Users Were Not Enforced

Other policy provisions not enforced in 2013, include the limit on the distance authorized employees can live from City Hall; the requirement for employees seeking authorization as a first responder to report the number of callbacks during the previous six months; the requirement that assigned vehicles be visibly marked unless the vehicle is exclusively used by the mayor, chief operating officer, chief of staff, or department heads; and the limit on fuel consumption for personal use.

These provisions were apparently intended to reduce the cost of take-home cars by limiting the number of miles driven, reducing the number of employees eligible, and deterring employees' personal use as the use is visible to the public.

Our review of authorization forms identified:

- 16 of 53 employees authorized to drive vehicles overnight did not live within 25 miles of City Hall
- 4 of 38 employees seeking first responder authorization status reported callbacks
- 15 authorization forms listed "24-Hour on-call" as justification, but that is not an approved justification listed in the city policy
- 12 city employees below the department head level were assigned unmarked vehicles

Additionally, the city cannot determine whether employees meet the 13 gallon weekly fuel consumption city policy limit for take home vehicles because departments do not require employees to report personal use. The chief operating officer should implement detective controls to identify when employees fail to follow city policies. The chief operating officer should revise the city's vehicle use policy to require departments to maintain vehicle use logs. The chief operating officer should require all departments to report all commutes, including zero use, to Finance for all authorized employees during the tax year.

City Code Provisions Remain Outdated

We found in our *2006 Payroll Tax Compliance Audit* that Section 2-1715 of the City Code of Ordinances, last updated in 1977, did not address tax implications and contradicted IRS regulations. We recommended that the chief financial officer propose legislation to

amend code provisions on personal use of city-owned vehicles to comply with IRS regulations. The recommendation has yet to be implemented.

Current city policy and department practices differ from code requirements. The code permits authorization for employees to take vehicles home if employees have documented a minimum of 30 approved callbacks for the preceding six months or if an extenuating circumstance exists. The code does not mention the term first responder, the mile requirement, or the limit on fuel use. Although, city policy requires employees to report the number of callbacks from the prior six months, it does not set a minimum number for approval. Only one of the 13 employees who reported callbacks on the authorization form reported more than 30. The code and city policy state that the mayor shall grant authorizations for take-home vehicles and that the list of authorizations should be filed with the municipal clerk and the committee on Finance of the council twice a year, but we found no evidence that either occurs.

We reiterate our recommendation from our previous *Payroll Tax Compliance* audit that the chief operating officer propose revisions to the city code to comply with IRS regulations and to meet city business requirements.

Recommendations

To ensure that city vehicles are used for authorized purposes, we recommend the chief operating officer:

1. Consider distributing a vehicle allowance to employees who are required to report during emergency response situations but who are not required to drive specialized vehicles.
2. Revise the city's vehicle use policy to require departments to create and maintain vehicle use logs to track business and personal vehicle use. Logs should include information such as driver, location, mileage, time of day, time in/out, and reason for use. Further, require departments to use information from the logs to report all recorded commutes, including instances of zero use, to the finance department for all authorized employees during the tax year.
3. Ensure that department heads periodically review all available vehicle use data including fuel records, vehicle use logs, and GPS data if available, using comparisons among data sources and other analysis to identify possible misuse and noncompliance with city policy.
4. Direct departments to enforce the city's policy requirements for end-of-shift parking of vehicles assigned for on-duty use.
5. Explore the costs and benefits of installing GPS on all city vehicles.
6. Propose revisions to the city code to comply with IRS regulations and to meet city business requirements.

To strengthen controls over the use of city vehicles and to ensure they are used for official city business, we recommend the commissioner of public works:

7. Immediately complete an inventory of all city vehicles to determine the vehicle purpose, department, and assignment and update the fleet database. Moving forward, the commissioner of public works should update all records annually.

To ensure that fringe benefits are accurately reported to the IRS, we recommend the chief financial officer:

8. Make the necessary adjustments to 2013 IRS reporting issues and address them for the 2014 reporting year.
9. Apply the appropriate IRS valuation method to all employees authorized for take-home vehicle use.

Appendices

Appendix A
 Management Review and Response to Audit Recommendations

Report # 13.09		Report Title: Take-Home Vehicles	Date: 6/25/14
Recommendation Responses - Chief Operating Officer			
Rec. # 1	We recommend the chief operating officer consider distributing a vehicle allowance to employees who are required to report during emergency response situations but who are not required to drive specialized vehicles.		Agree
	<p><u>Proposed Action:</u> The city will complete a thorough assessment for safety sensitive positions by department to determine possible implementation. Each department head should complete the assessment.</p> <p><u>Implementation Timeframe:</u> September 1, 2014</p> <p><u>Responsible Person:</u> Michael Geisler, Interim Chief Operating Officer</p>		
Rec. # 2	We recommend the chief operating officer revise the city's vehicle use policy to require departments to create and maintain vehicle use logs to track business and personal vehicle use. Logs should include information such as driver, location, mileage, time of day, time in/out, and reason for use. Further, require departments to use information from the logs to report all recorded commutes, including instances of zero use, to the finance department for all authorized employees during the tax year.		Partially Agree
	<p><u>Proposed Action:</u> The city will implement vehicle logs for take-home vehicles only. The Office of Fleet Services will generate a usage log along with instructions completion and retention and forward to all departments by July 15, 2014. Department Heads will initiate turn in of logs by the first week of September 2014.</p> <p>We also propose the Department of Information Technology develop or research software programs that can track take-home vehicle mileages that allows employees to input weekly mileages for reporting purposes, or utilize annual reporting logs to review commuting mileages.</p> <p><u>Implementation Timeframe:</u> Usage log by September 1, 2014; Implementation of new tracking software within the next 12 months.</p> <p><u>Responsible Person:</u> Michael Geisler, Interim Chief Operating Officer; Michael Dogan, Interim Chief Information Officer</p>		

Agree

Rec. # 3 We recommend the chief operating officer ensure that department heads periodically review all available vehicle use data including fuel records, vehicle use logs, and GPS data if available, using comparisons among data sources and other analysis to identify possible misuse and noncompliance with city policy.

Proposed Action: The city will implement a review of all assigned vehicle data including fuel records, mileage, vehicle use logs, and available GPS data, to be implemented bi-monthly (December and July). Department heads or designees will review the logs.

Implementation Timeframe: The Office of Fleet Services will work with all departments to configure the GPS reporting system upon purchase of the logs.

Responsible Person: The log review will begin December 2014; The GPS reporting system should be implemented within the next 12 months. Michael Geisler, Interim Chief Operating Officer; Dale Fambrough, Office of Fleet Services Director

Agree

Rec. # 4 We recommend the chief operating officer direct departments to enforce the city's policy requirements for end-of-shift parking of vehicles assigned for on-duty use.

Proposed Action: The city will designate pool parking locations for assigned departmental vehicles. Department Heads or designees will identify the designated pool parking locations.

Implementation Timeframe: August 1, 2014

Responsible Person: Michael Geisler, Interim Chief Operating Officer

Agree

Rec. # 5 We recommend the chief operating officer explore the costs and benefits of installing GPS on all city vehicles.

Proposed Action: Risk Management previously conducted a drive camera pilot and is currently in the RFP process for a drive camera/GPS combination. The Department of Finance and Risk Management will handle implementation.

Implementation Timeframe: Within the next 12 months

Responsible Person: Michael Geisler, Interim Chief Operating Officer; Kathy Lloyd, Risk Manager; Jim Beard, Chief Financial Officer

Rec. # 6 We recommend the chief operating officer propose revisions to the city code to comply with IRS regulations and to meet city business requirements.

Agree

Proposed Action: The department of finance will handle implementation.

Implementation Timeframe: December 1, 2014

Responsible Person: Michael Geisler, Interim Chief Operating Officer; Jim Beard, Chief Financial Officer

Rec. # 7 We recommend the chief operating officer immediately complete an inventory of all city vehicles to determine the vehicle purpose, department, and assignment and update the fleet database. Moving forward, the commissioner of public works should update all records annually.

Agree

Proposed Action: The city will implement a physical vehicle inventory for all City of Atlanta vehicles, and again annually in July of each year. The Office of Fleet Services will conduct an inventory for all City of Atlanta units.

Implementation Timeframe: July 30, 2014

Responsible Person: Michael Geisler, Interim Chief Operating Officer; Dale Fambrough, Office of Fleet Services Director

Report # 13.09

Report Title: Take-Home Vehicles

Date: 6/16/14

Recommendation Responses - Chief Financial Officer

Rec. # 8

We recommend the chief financial officer make the necessary adjustments to 2013 IRS reporting issues and address them for the 2014 reporting year.

Agree

Proposed Action:

Finance will ensure that affected employees have the appropriate adjustments made to their 2014 statement of earnings and/or issue amended 2013 W-2c/W-3c statements for commuting benefits earned in 2013.

Implementation Timeframe:

December 2014

Responsible Person:

Jim Beard, CFO

Rec. # 9

We recommend the chief financial officer apply the appropriate IRS valuation method to all employees.

Agree

Proposed Action:

The Department of Finance, using data provided by Operations, will ensure that employees who are using City vehicles for commuting purposes have the appropriate amount of earnings assessed, according to current IRS guidelines, through payroll. Further, Finance will support changes to the City's vehicle policy so that if an employee is considered a "control employee" as defined by the IRS, that the employee be given an appropriate auto allowance to be included in taxable earnings instead of the use of a City vehicle.

Implementation Timeframe:

December 2014

Responsible Person:

Jim Beard, CFO