

*Internal Audit Report*

**DEPARTMENT OF FIRE & RESCUE SERVICES  
TAKE-HOME VEHICLE PROGRAM AUDIT  
FEBRUARY 2018**

*Office of the County Auditor*





## OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA  
County Auditor

February 2018

The Honorable Members of the County Council  
The Honorable Allan Kittleman, County Executive

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted an audit of the take-home vehicle program at the Department of Fire & Rescue Services. This report contains recommendations we believe will improve accountability and compliance with applicable policies.

This report has been reviewed with the Chief Administrative Officer and we have included the Administration's response. We wish to express our gratitude to the Department of Fire & Rescue Services for the cooperation and assistance extended to us during the course of this engagement.

A handwritten signature in blue ink, appearing to read "Craig Glendenning".

Craig Glendenning, CPA  
County Auditor

## **EXECUTIVE SUMMARY**

We conducted a performance audit of the take-home vehicle program at the Howard County Department of Fire & Rescue Services (DFRS). The objectives of our audit were to:

1. Determine if vehicles are assigned in accordance with DFRS and County policies.
2. Determine if monthly reporting requirements are being met.
3. Determine if applicable employees are charged with a taxable fringe benefit in accordance with Internal Revenue Service guidance.
4. Determine if the Administration reviewed the efficiency and effectiveness of the take-home vehicle program.

### **Conclusions**

For the audit objectives, we found that:

1. DFRS assigns vehicles in accordance with DFRS and County policies. However, DFRS vehicle inventory records did not agree with official County inventory records.
2. Although DFRS drivers completed monthly usage logs, our testing disclosed many errors in calculating business and personal mileage.
3. Our testing of the taxable benefits associated with take-home vehicles found that the taxable benefit was not always properly calculated or assessed.
4. At the time of our audit, an analysis to determine the efficiency and effectiveness of the take-home vehicle program had not been performed. Subsequent to our fieldwork, DFRS prepared an evaluation of the program. The evaluation indicated that the program provides benefits at a lower cost than alternatives. However, Fleet has not prepared an evaluation of the take-home vehicle program as required by County policy.

## **BACKGROUND**

The Department of Fire & Rescue Services (DFRS) administers the County's programs for fire suppression and prevention, fire training, arson investigation, rescue services, emergency medical services and other related duties and responsibilities. DFRS includes the Office of Emergency Management (OEM), the local agency responsible for developing and implementing local and State emergency management plans.

Based on DFRS records, it has over 200 vehicles including more than 50 vehicles that are assigned to employees. Of the assigned vehicles, 26 are assigned as take-home or on-call vehicles. These vehicles are purchased and maintained by the County.

The DFRS General Order on County Vehicle Use (Policy) covers the use of vehicles by DFRS employees. The Policy details basic eligibility and use guidelines, including recordkeeping and individual driver responsibilities. The Policy states that the County's Central Fleet Vehicle Manual and related policies apply to DFRS.

## FINDINGS AND RECOMMENDATIONS

### **Finding 1**

**Monthly mileage logs included mathematical errors and questionable data, and are not consistently reviewed.**

County policy requires the maintenance of monthly logs for all take-home vehicles. The logs document business and personal (commute) mileage. Our test of 68 monthly vehicle mileage logs prepared in calendar year 2016 found errors on 15 (22%) of the logs tested. In addition, DFRS did not review the monthly logs.

- In seven instances, we found that the total mileage driven for the month was accurate. However, the allocation between business and personal mileage was incorrect. In these cases, the total of the business and personal mileage for one or more days did not agree to the total mileage driven.
- In eight instances, we found the total mileage recorded for the month did not agree to the difference between the beginning and ending odometer readings.
- Three drivers with assigned vehicles did not report any personal mileage for the months tested although they did report business use in each of the months. It would be unusual to have business mileage without personal (commute) mileage. DFRS advised us that they are reviewing take-home vehicle use and related recordkeeping.

*We recommend that DFRS ensure that all employees assigned a take-home vehicle accurately report business and personal mileage on the mileage logs. We also recommend that DFRS review mileage logs to assure accuracy and compliance with County policies.*

#### *Administration's Response:*

The Administration concurs with the finding. Late last year, DFRS discovered an issue related to reporting business and personal mileage; the Department is currently in the process of addressing it. DFRS has also instituted a new process that facilitates proper supervisory review of all submitted mileage logs.

**Finding 2****The County did not always properly calculate or assess the taxable fringe benefits related to take-home vehicles in accordance with IRS guidance.**

The Department of Finance (Finance) and Central Fleet (Fleet) annually assess the taxable fringe benefit for employees whose vehicle use meet the taxable criteria (generally drivers assigned unmarked vehicles who are not law enforcement personnel). The value of the fringe benefit is based on either the Commuting Rule or the Annual Lease Value Rule (explanation of the rules below). Our test of all 10 DFRS employees assessed a fringe benefit for calendar year 2016 found errors in 7 instances.

- For five employees, Finance/Fleet used the incorrect Rule. For one employee, the Commuting Rule was used although the employee did not meet all of the criteria. The use of the incorrect rule resulted in underreporting the value of the fringe benefit by \$3,708.
- In four of the five instances noted in the first bullet as having used the incorrect rule, the Annual Lease Value Rule was used instead of the Commuting Rule. The Commuting Rule will generally result in a lower fringe benefit; however, the difference was not significant because Finance/Fleet also incorrectly used a fair market value of \$1 for the calculation.
- For one employee, while the taxable benefit of \$4,510 was properly calculated, the fringe benefit was erroneously excluded from reported wages for 2016. We called this oversight to the attention of Finance, and it was corrected in 2017.
- In one case, Finance/Fleet used the proper rule but listed the fair market value of the vehicle at \$1 instead of \$5,350 as stated in the IRS guidance. This resulted in underreporting the fringe benefit by \$2,407.
- Finance annually notifies employees of the value of the fringe benefit prior to including it in the employee's wage statement. Our review of the ten letters for our tested items disclosed that the value of the fringe benefit according to the letter did not agree to the amount reported in the employee's wage statement in four instances.

The Internal Revenue Service (IRS) provides the guidance for employers to assess the financial benefits of personal (commute) use of take-home vehicles. The Commuting Rule assesses a benefit of \$1.50 per one-way commute and is used when all the following criteria are met:

- The employer provides the vehicle to an employee for use in trade or business;
- The employer has a written policy which doesn't allow the use of the vehicle for purposes other than commuting or de minimis personal use;

- The employee doesn't use the vehicle for personal use other than commuting or de minimis personal use; and
- The employee is not a control employee. The IRS defines a government control employee as either an elected official or one who earns at or above a predetermined compensation. For 2016, the compensation was \$150,200.

If the employee does not meet the above criteria, the value of the fringe benefit is based on the ALV Rule. This Rule bases the taxable benefit on the fair market value of the assigned vehicle and the percentage of personal miles out of the total miles driven by the employee.

*We recommend that Finance and Fleet ensure that taxable fringe benefits are properly calculated in accordance with IRS guidance and are all reported on employee wage statements. We also recommend that all calculations for the ALV Rule use the appropriate fair market value of the vehicle. Finally, we recommend that Finance ensure that fringe benefit notifications provided to employees reflect the proper amount of the fringe benefit to be included in the employees' wage statements.*

*Administration's Response:*

The Administration concurs with the finding. The County adjusted its procedure in 2017 and Central Fleet/Finance have begun to track the salaries that have the potential to go over the Federal Executive Maximum which will ensure the proper application of either the annual lease value or the commuting method.

The fringe benefit notification letters were compiled by Central Fleet in 2016 and sent as a courtesy to employees. Since the notification letters are not required by the IRS and the fringe benefit amount can be found on the employee's pay stub, the Department has discontinued the practice of sending these notifications. This will not be an issue going forward.

**Finding 3**  
**DFRS and Fleet have not analyzed the programmatic or financial benefits of the take-home vehicle program.**

DFRS had not performed an analysis to determine the programmatic or financial benefits of operating a take-home vehicle program. DFRS Policy requires the Bureau of Logistics, Fleet Division to compile statistics on a monthly and yearly basis to enable the Logistics Bureau Chief to evaluate the program.

According to DRFS, the take-home vehicle program enables employees to respond faster to emergencies and to ensure these respondents have the proper specialized equipment. Subsequent to our audit fieldwork, DRFS provided us with an evaluation of the program. The evaluation indicated that the program provides benefits at a lower cost than alternative actions (which generally require additional staffing). Our review of the evaluation revealed that the analysis appears reasonable.

Fleet had not prepared an evaluation of the County's take-home vehicle program, including DRFS. County policy requires Fleet to perform a semi-annual evaluation of the program and make recommendations for adjustments.

*We recommend that the DRFS continue to periodically analyze the costs and benefits of the current take-home vehicle program in accordance with its policy. We also recommend that Fleet evaluate the County take-home vehicle program as required by County policy.*

*Administration's Response:*

The Administration concurs with this finding. As mentioned in the finding, DRFS has instituted quarterly cost-benefit reporting.

Central Fleet was without a take-home vehicle coordinator from October 2016, until the position was filled in May 2017. Now that Central Fleet has filled this role, compliance will be assured moving forward.

**Finding 4**  
**DFRS vehicle and apparatus inventory records did not agree to Fleet records.**

Our comparison of DRFS vehicle and apparatus inventory records to the County's official Fleet records disclosed 12 differences. These resulted from discrepancies in the asset numbers used to record the vehicles and apparatus in the records. DRFS advised they would review these differences.

*We recommend that DRFS compare its vehicle and apparatus inventory records with those of Fleet on a periodic basis and work with Fleet to resolve any discrepancies.*

*Administration's Response:*

The Administration concurs with this finding. Central Fleet is in the process of strengthening the requirements around vehicle and apparatus inventory reporting.



## ADDITIONAL COMMENTS

Our audit included a test to ensure that vehicle assignments are properly documented and approved in accordance with DFRS and County Policies. Our test found that all vehicle assignments tested were properly documented and approved by the appropriate supervisory personnel.

## AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of take-home vehicles at the Department of Fire & Rescue Services (DFRS). The audit reviewed take-home vehicles assigned as of January 2017.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States, except for the requirement to obtain an external peer review at least once every three years. We have not contracted for a peer review due to our recent conversion to the use of government auditing standards. We believe that not complying with this requirement had no impact on the audit or the findings contained in this report.

Government auditing standards require us to 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Determine if vehicles are assigned in accordance with DFRS and County policies.
2. Determine if monthly reporting requirements are being met.
3. Determine if applicable employees are charged with a taxable fringe benefit in accordance with Internal Revenue Service guidance.
4. Determine if the Administration reviewed the efficiency and effectiveness of the take-home vehicle program.

To accomplish our objectives, we met with DFRS staff responsible for oversight of the take-home vehicle program. We reviewed County and DFRS policies and the union agreement. We reviewed documentation related to the assignment of take-home vehicles. We performed tests designed to determine if the DFRS adheres to its policies.

Management is responsible for establishing and maintaining effective internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We conducted our field work from June 2017 to September 2017. The DFRS' responses to our findings and recommendations are included in this report.

**AUDIT TEAM**

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Audit Manager