



# REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

## LIMITED SCOPE PERFORMANCE AUDIT OF CITY TAKE-HOME VEHICLES

### INTERNAL AUDIT REPORT (IAR) 650016-07

December 9, 2016

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<b>Report Highlights</b>	<b>Page(s)</b>
• The Administrative Procedure and City Ordinance conflict	7
• The administration lacked documentation of take-home vehicles and approvals	8-9
• The City is unable to demonstrate compliance with IRS regulations	14-15



The Council  
City of Shreveport

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December 9, 2016

Councilman Willie Bradford  
Chairman, Shreveport City Council

Dear Councilman Bradford:

Subject: IAR 650016-07– Limited Scope Performance Audit of City Take Home Vehicles

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA  
City Internal Auditor

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**EXECUTIVE SUMMARY**  
**LIMITED SCOPE PERFORMANCE AUDIT OF CITY TAKE-HOME**  
**VEHICLES**  
**INTERNAL AUDIT REPORT (IAR) 650016-07**

**Why We Did This Audit**

We have completed a limited scope performance audit of City Take-Home Vehicles. This audit was conducted as a result of several City Fraud Hotline (FHL) complaints received from citizens concerned that City vehicles were being utilized for non-City purposes. Our objective was to determine if take-home vehicles have been assigned in accordance with City Ordinances and administrative policies and procedures; and to determine if the City's take-home vehicle policies meet Internal Revenue Service Regulations.

**What We Recommended**

To improve oversight of the City's take-home vehicles, we recommend the Chief Administrative Officer (CAO):

- Require that all City vehicles have GPS tracking devices.
- Update administrative procedures to include IRS reporting requirements and excess mileage charges.
- Require updates to departmental vehicle listings as they occur.

To strengthen controls over assignment of take-home vehicles and more accurately report internally and externally, we recommend Departmental Management:

- Obtain written approval of take-home vehicle assignments from CAO.
- Provide Administration and Finance Department with updates as they occur.
- Produce monthly reports, showing monthly usage and dollar amounts and verify amount reported to IRS against Master Lists.

**Limited Scope Performance Audit:  
City Take-Home Vehicles**

**What We Found**

We obtained evidence that demonstrated inappropriate use of City vehicles by some employees. We found that controls over the use of City take-home vehicles were not regularly or uniformly enforced. The City's take-home vehicle policy is articulated in Administrative Procedure 1-24 dated March 1, 1993 and does not appear to have been consistently followed.

We found that 1 of the 3 departments that have take-home vehicles have most of their vehicles equipped with GPS tracking devices, including all its take-home vehicles.

We also found that the City's compliance with Internal Revenue Service (IRS) reporting requirements for take-home vehicles is incomplete and inaccurate.

We identified the following deficiencies:

- **The Administrative Procedure and City Ordinance conflict.**
- **Prior to our investigation, there were no lists and no documented approvals for assignment of take-home vehicles.**
- **The City is unable to demonstrate full compliance with IRS regulations, City Ordinances, and Administrative Procedures.**

## INDEX

Executive Summary .....	1
Index .....	2
Introduction .....	3
Recommendation Evaluation Risk Criteria.....	4
Scope and Methodology .....	5
Findings and Recommendations .....	6
City Ordinance/Administrative Procedure .....	7
GPS Monitoring .....	12
Fuel Card PINs .....	13
Compliance with IRS Regulations.....	14
Appendix I .....	18



## Introduction

In October of 2015, the City of Shreveport Internal Audit Office received an anonymous fraud hotline allegation that an employee was inappropriately using their assigned City-owned, take-home vehicle. Throughout the course of our investigation, we identified three significant risks to the City of Shreveport created by the improper use of take-home vehicles:

1. Potential for claims to be filed against the City by unauthorized passengers.
2. Inappropriate use of taxpayers' dollars (whether real or perceived).
3. Employees treating take-home vehicle assignment as an employment perk.

This report provides the results of our limited scope performance audit of the City's take-home vehicles to determine if adequate controls and policies and procedures are in place to mitigate these risks.

The CAO requested current lists of take-home vehicles from the various City Departments, along with the rationale for each take-home vehicle's status. He furnished these lists to Internal Audit, and they became the benchmark against which reporting compliance was measured.

***As of December 31, 2015 the City had 184 take-home vehicles in operation, excluding marked Fire, Police, and City Marshal vehicles.***

***Vehicle assignments are determined by the respective Department heads and approved by the Chief Administrative Officer.***

The objective of this limited scope performance audit is to determine the following:

- Are take-home vehicles being used in accordance with City guidelines?
- Are there adequate controls in place to ensure the policies and procedures are followed?
- Are the de minimis and excess mileage values being reported to payroll, taxed appropriately and reimbursed to the City as required, and reported to IRS as required?



**Recommendation Evaluation Risk Criteria**

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains four findings with nine recommendations.

<i><b>Risk Levels</b></i>	<i><b>Recommendations</b></i>
<p style="text-align: center;"><b>High Risk</b></p> <p>Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.</p>	<ul style="list-style-type: none"> <li>➤ City Administration and City Council implement policies that are congruent <b>(Finding: City Ordinance/Administrative Procedure)</b></li> <li>➤ Every Department should verify, update, and report all take-home vehicle assignments to the CAO at least annually, providing a complete listing to payroll section along with CAO-approved changes. <b>(Finding: City Ordinance/Administrative Procedure)</b></li> <li>➤ Establish a policy providing specific guidance on unofficial passengers riding in City vehicles. <b>(Finding: City Ordinance/Administrative Procedure)</b></li> <li>➤ The City's payroll section develops reporting cycles and communicates to other City Departments the manner and frequency in which car usage reporting is to occur. Non-compliant employees should not be allowed to continue to use city-owned vehicles. <b>(Finding: Compliance with IRS Regulations)</b></li> <li>➤ The value of personal use is calculated and included as a taxable benefit (\$1.50 each one-way commute) to all applicable employees. <b>(Finding: Compliance with IRS Regulations)</b></li> </ul>
<p style="text-align: center;"><b>Medium Risk</b></p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	<ul style="list-style-type: none"> <li>➤ Document approved exceptions to any policy with appropriate Departmental and Administrative signatures. <b>(Finding: City Ordinance/Administrative Procedure)</b></li> <li>➤ Charge the mileage rate for excess miles beyond the five mile limit specified in Administrative Procedure 1-24 and document in writing any case of the CAO's waiver of this charge. <b>(Finding: City Ordinance/Administrative Procedure)</b></li> <li>➤ Equip all City vehicles with GPS tracking. <b>(Finding: GPS Monitoring)</b></li> <li>➤ Each employee assigned a City Vehicle should be provided with his or her own PIN number. <b>(Finding: Fuel Card PINs)</b></li> </ul>
<p style="text-align: center;"><b>Low Risk</b></p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	<p style="text-align: center;">None</p>



### Scope and Methodology

The scope of this performance audit is limited to the activities establishing approval for specific take-home vehicles, policies and procedures governing their use as take-home vehicles, the reporting requirements for this usage, and the controls in place to ensure compliance with policies and procedures established for carrying out these activities and their effectiveness. In order to meet these objectives, we reviewed relevant internal controls and developed audit procedures that included but were not limited to the following:

- Interviewing Administrative and Departmental management regarding controls and reporting
- Reviewing City ordinances and administrative procedures
- Inspecting certain vehicles named/described in FHL complaints
- Obtained lists of take-home vehicles from the City's various Departments
- Performing other tests and procedures deemed appropriate in the circumstances.

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

***We thank the Mayor's office, particularly the CAO, as well as personnel in other City Departments for the cooperation and assistance in gathering information provided to us in our work on this project.***





# **FINDINGS AND RECOMMENDATIONS**



**Objective: To Determine If Take-Home Vehicles Are Being Used In Accordance With City Guidelines**

**City Ordinance/Administrative Procedure**

The assignment and use of City take-home vehicles is governed by City Ordinance 2.2, adopted January 24, 1995 and modified on November 23, 1999; and Administrative Procedure 1-24 having an effective date of March 1, 1993. In addition to following the City Ordinance and the Administrative Procedure, the City must also be in compliance with IRS regulations for fringe benefits.

**City Ordinance 2.2**

*No vehicle owned or leased by the City and assigned to an officer or employee to be in his or her possession outside of normal working hours may be taken more than **one mile** outside of the corporate limits of the city after March 1, 1995 except in furtherance of city business, or, in accordance with a detailed written take-home policy submitted by the head of the employee's department and approved by the Chief Administrative Officer (CAO).*

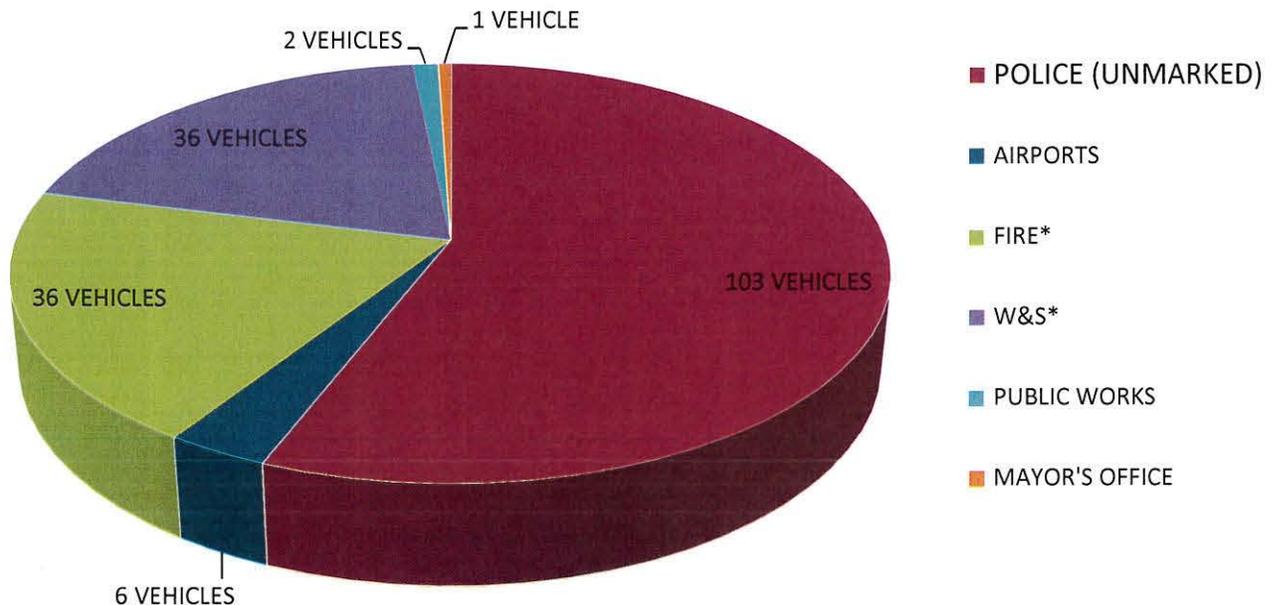
**Administrative Procedure 1-24**

*No City vehicle will be assigned for take-home if an employee's residence is more than **five miles** outside of the city limits of Shreveport without prior written approval of the CAO. In the event that a take-home vehicle is approved by the CAO when the employee's residence is more than five miles outside the City limits, the employee "will be required to pay the City a mileage charge" for each mile above the five mile limit. The mileage charge will be based on the per-mile rate allowed by the City for automobile mileage associated with out-of-town travel.*

Both the Ordinance and the Administrative Procedure allow the CAO to make exceptions, **in writing**, to a vehicle to be driven home beyond the authorized miles outside the city limits; however, the two differ in what is the authorized mileage.



## 2015 TAKE-HOME VEHICLES BY DEPARTMENT



In 2015, based on addresses listed in payroll records and departmental listings:

56 vehicles were driven home more than 5 miles outside the city limits

- A. 13 belong to various departments and are approved by CAO
- B. 2 were discontinued as a take-home car as of October 2015
- C. 38 are unmarked police and fire command staff and on-call take-home vehicle assignments\* (***The employee assigned to 1 of these vehicles lives out-of-state***)
- D. The remaining 3 vehicles are assigned to the Water and Sewer Department

*\*Four employees in this group list post office boxes outside of the city as an address, precluding the ability to determine the distance beyond city limits.*



**Management Response to above comments:**

Regarding(C); although this member has take-home vehicle privileges due to his rank and responsibility, this vehicle was never taken home and out-of-state by the member. The member leaves his vehicle parked at the garage when not on duty.

Regarding (\*): All City personnel who have take-home vehicle privileges will be required to list the address where the vehicle is traveling from/to and being parked at. Any other address will not be accepted. It should be noted and will be documented on the case-by-case basis that some of the City take home vehicles that are assigned to members who reside greater than five (5) miles outside of the city limits, are permitted to park their City vehicle at the closest City fire station to their address. This also includes fire stations in Bossier City that are within the five (5) mile limit. Thus, these employees will not be required to pay the mileage rate although they may have a home address outside of this limit. In these cases, the address of the fire station where the vehicle is parked will be documented.

No documentation indicated that the CAO waived the charge to employees for the mileage in excess of the five mile limit established in Administrative Procedure 1-24, which provides authority for the CAO to waive the additional mileage charge on a case-by case basis, in writing, including the reason for the waiver. We did not find any record of employees' payment of the excess mileage.

***The employee named in the original allegation lives approximately 16 miles outside the city limits. After a review of the necessity for this employee to have a take-home vehicle, the prior approval was revoked.***

The take-home policy was established for benefit of the City, particularly in response time to emergencies; however, the City's benefit is diminished, and the employee benefit is increased when the employee lives at a significant distance from the City. Imposing the mileage charge provides equity among the employees while compensating the City for the greater cost of the more distant employee's commute.

***Administrative Procedure 1-24.1: Take-home vehicles will not be assigned to City employees as a salary supplement or a "perk."***

Without clearly defined guidelines on how and when a take-home vehicle should be assigned, take-home vehicles may be treated as or perceived to be an employment perk.



**IAR 650016-07**  
**October 19, 2016**

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During our initial investigation, we found evidence of personal use beyond the normal work commute. We could not find a specific policy on this issue. A non-employee passenger riding in an unofficial capacity increases the risk of financial liability and reputational harm to the City.

Appendix I is a flow chart depicting the development and relationship of the various controls described in this report.

**Recommendation 1:** We recommend that City Administration and City Council work to develop policies that are congruent.

**Recommendation 2:** Approved exceptions to any policy need to be documented in writing with appropriate Departmental and Administrative signatures.

**Recommendation 3:** Every Department should verify, make necessary updates, and report to the CAO a complete list of its take-home vehicles at least annually. One complete list should be provided to payroll section as well as any CAO-approved changes.

**Recommendation 4:** Charge the mileage rate for excess miles beyond the five mile limit specified in Administrative Procedure 1-24 and document in writing the CAO's case-by-case waiver of this charge.

**Recommendation 5:** Establish a policy providing specific guidance on unofficial passengers riding in City vehicles.





**Management Response:**

**Recommendation 1:** The City Administration will be submitting an ordinance amending Ord. 1 of 1995 to City Council to be reflective and congruent with the Take Home Vehicle Policy Administrative Policy of March 1, 1993 (A.P No. 1-24).

**Recommendation 2:** The CAO will require and keep on file, along with the list of take home vehicles, a written request from each respective department director and CAO approval (verified by signature) for allowable exceptions to the Take Home Vehicle "outside city limits" provision provided in A.P. 1-24(3).

**Recommendation 3:** As there were no known previous (centralized) take home vehicle lists kept prior to the current Administration, one was duly established in 2015 and provided to IA for this report. As was mentioned to department directors in that first inquiry last year, a yearly update will be requested from the CAO's Office and required. That list will be updated no later than December 31 of each year. This list will be provided annually to payroll through the Finance Department.

**Recommendation 4:** Any take home vehicles that are not provided with an exception waiver and that are greater than five (5) miles outside of the city limits will be required to comply with A.P. 1-24(6) and pay the City a mileage charge. The Administration will be working with respective department directors and the Finance Department to ensure compliance.

**Recommendation 5:** This recommendation has been forwarded to the City Legal Department and Risk Management to review and establish a policy to govern.



**Objective: To Determine If Adequate Controls Exist To Ensure Policies And Procedures Are Followed**

**GPS Monitoring**

We received complaints related to the distance City take-home vehicles were driven to employees' residences. One of these complaints was resolved by reviewing the vehicle's location on the City's GPS system at the time it was reported seen. Other vehicles reported were not equipped with GPS tracking devices. Vehicles in two of the three City Departments that have take-home vehicles are not GPS equipped.

The capability to monitor City vehicles on the GPS tracking system is both efficient and effective. The GPS system can identify the precise location of a vehicle, the duration and speed if moving, and length of time idle of a vehicle at any time within the preceding two years. The operator of the system informed us that he responds to six or more reports/requests per week about take-home vehicles' activities, including some from the Mayor's office. The ability to give verifiable facts and to monitor employees' driving habits provides opportunities to improve accountability and transparency and possibly minimize maintenance and fuel costs.

**Recommendation 6:** Equip all City vehicles with GPS tracking.

**Management Response:**

**Recommendation 6:** It is the Administration's desire to equip all City vehicles with GPS devices as funding becomes available.



### Fuel Card PINs

Each employee who uses a City vehicle (take-home or not) is assigned a PIN that enables them to use a fuel card. While conducting our fieldwork, we learned that some employees are sharing their PINs (Personal Identification Numbers) with other employees who are authorized to operate City vehicles. These employees told us that they are sharing the PINs on the instruction of their supervisors because new employees are not provided with a PIN until they have completed their probationary period (six months). Sharing PINs defeats the control they are meant to provide. The PIN identifies the user of the fuel card. This is a primary purpose of the PIN, and allows management to monitor and account for fuel usage.

**Recommendation 7:** Each employee assigned a City Vehicle should be provided with his or her own PIN.

### Management Response:

**Recommendation 7:** The Administration will review with each department director the necessity for accountability in having members designated to operate city vehicles assigned their individual PIN identification.





**Objective: To determine if the City is in Compliance with Internal Revenue Service Regulations**

**Compliance with IRS regulations**

***IRS Commuting Rule to determine the value of Personal Use of Employer Vehicles***

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.

<p style="text-align: center;"><b><i>Commuting Rule</i></b></p> <ul style="list-style-type: none"> <li>• Employer provides vehicle to employee for use in its trade or business</li> <li>• Employer requires commute for non-compensatory business reasons</li> <li>• Employer has written policy prohibiting personal use other than for commuting or for de minimis personal use</li> <li>• Employee does not use vehicle for personal uses other than commuting or de minimis use</li> <li>• Employee is not a control employee (an elected official or an employee whose compensation exceeds \$148,700 in 2015 and \$150,200 for 2016)</li> <li>• The taxable benefit valuation is calculated by multiplying each one-way commute by \$1.50</li> <li>• The taxable benefit valuation includes the value of the vehicle's maintenance and employer provided fuel costs</li> </ul>	<p style="text-align: center;"><b><i>Cents-Per-Mile Rule</i></b></p> <ul style="list-style-type: none"> <li>• Employer reasonably expects the vehicle to be regularly used in its trade or business, or</li> <li>• Vehicle meets the mileage test: requires the vehicle to be driven at least 10,000 miles during the year and must be used primarily by employees</li> <li>• The vehicle's value at the time of assignment does not exceed \$16,000 for passenger automobiles or \$17,500 for trucks and vans.</li> <li>• The benefit valuation is calculated by multiplying the standard mileage rate by the total miles the employee drives for personal purposes</li> <li>• 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.</li> </ul>
<p style="text-align: center;"><b><i>Lease Value Rule</i></b></p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> <li>• The taxable benefits of employer provided fuel and maintenance are calculated separately</li> <li>• 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.</li> </ul>	<p style="text-align: center;"><b><i>General Valuation Rule</i></b></p> <ul style="list-style-type: none"> <li>• Vehicle benefit does not qualify for an exclusion or other valuation rule</li> <li>• 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.)</li> <li>• The taxable benefits of employer provided fuel and maintenance are calculated separately.</li> </ul>



**IRS regulations exempt police and fire from reporting. The City of Shreveport uses the Commuting Rule to value personal use of take-home vehicles.**

**Administrative Procedure 1-24.6: The Finance Department will be responsible for developing procedures for obtaining these payments from employees.**

There is no list of take-home vehicle assignments available in the payroll section of Finance to compare employees having take-home vehicles against employees who actually report their

usage. **If and when an employee submits a personal use form**, payroll calculates the taxable benefit at \$3 per day (\$1.50 per back and forth commute) and adds the amount to the employee's taxable earnings (not gross pay).

Although the payroll section has established a "standard" form for reporting take-home vehicle usage, several Departments have created their own forms. Exhibit 2 shows how car usage is calculated and presented on employees' check stubs.

EARNINGS	HOURS	GROSS AMT
CAR USE	17.00+	51.00
CAR USE	19.00+	57.00
CAR USE	13.00+	39.00

**Exhibit 2: An example of how car usage appears on an employee check. The "Hours" are actually number of days driven home, and are multiplied by 3 to get the gross amount taxable to the employee.**

<u>Year</u>	<u>No. of Employees Reporting</u>	<u>Amount Reported</u>
2014	57	\$ 4,636.50
2015	77	\$ 32,569.50
2016	37	\$ 10,323.00

**Exhibit 3: Total car usage reported for 2014, 2015, and through September 30, 2016.  
 Source: COS IT Department**



The IRS exempts law enforcement and public safety vehicles from reporting daily usage. Additionally, elected officials are what the IRS considers control employees and cannot use the Commuting Rule. The table below compares the number of employees reporting take-home use with the number of employees that are required to report.

<b>Department</b>	<b>No. of Take-Home Vehicles</b>	<b>No. of Employees Reporting</b>
Airports	5	3
Public Works	2	0
Water & Sewerage	32	5
<b>Totals</b>	<b>39</b>	<b>8</b>

**Exhibit 4: the number of take-home vehicles reported by Department and the number of employees reporting take-home vehicle usage for the period beginning January 1, 2016 through September 30, 2016.**

**Recommendation 8:** We recommend that the City’s payroll section develop reporting cycles and communicate to other City Departments the manner and frequency in which that reporting is to occur. Non-compliant employees should not be allowed to continue to use city-owned vehicles,

**Recommendation 9:** We recommend that the value of personal use is calculated and included as a taxable benefit (\$1.50 each one-way commute) to all employees (excluding law enforcement and public safety) with take-home vehicles.

**Management Response:**

**Recommendation 8:** The Finance Department will develop reporting cycles and provide City Departments with information (e.g., manner and frequency of reporting) and develop a universal form in which that reporting is to occur. Non-compliant employees will be reminded of their responsibility and failure to report will result in progressive action (e.g. oral warning, written warning, take home vehicle privileges suspended) from department directors.

**Recommendation 9:** In compliance with the IRS Commuting Rule, excluding Fire and Police and other “Qualified Nonpersonal Use Vehicles” as defined in the IRS Regulations, the Finance Department will work with respective departments to ensure that the value of personal use is calculated and included as a taxable benefit (\$1.50 each one-way commute) to all take home vehicle employees.



Prepared by:

A handwritten signature in blue ink, appearing to read "S. Ben Hebert".

S. Ben Hebert, CPA, CFE, CMA, CISA, CLEA, CLAA, CGMA  
Staff Auditor III

A handwritten signature in blue ink, appearing to read "April M. Jordan".

April M. Jordan, CFE, CLEA  
Staff Auditor II

Approved by:

A handwritten signature in blue ink, appearing to read "Leanis L. Steward".

Leanis L. Steward, CPA, CIA  
City Internal Auditor

aj:bh:kh

c: City Council  
Clerk of Council  
Mayor  
Director of Finance  
Chief Administrative Officer  
Carr, Riggs & Ingram



**Appendix I: Take Home Vehicle Approval and Usage Reporting  
Functions**

