



Internal Audit

Vehicle Use/Take-Home Vehicles

May 2011

Bernalillo County Internal Audit Vehicle Use/Take-Home Vehicles

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of Bernalillo County vehicle usage and the authorization of use for take-home vehicles. The objective of the internal audit was to evaluate and test compliance with policies and procedures for take-home vehicles including calculation of fringe benefits, proper approval to support take-home vehicles, and proper tracking of day use vehicles.

In order to determine whether policies and procedures are followed and if adequate controls are in place over vehicles for Bernalillo County, we performed the following:

- Read the Administrative Instruction 22(A) Vehicle Use/Take-Home Vehicles;
- Interviewed relevant department personnel;
- Selected a sample of county vehicles. For take-home vehicles we tested the vehicle authorization form for completeness. For day use vehicles we tested whether vehicles were properly signed out and in each day;
- Recalculated a sample of employees' fringe benefits for accuracy;
- Tested a sample of employees with take-home vehicles to ensure they were properly receiving fringe benefits or were properly exempt from this requirement;
- Selected a sample of new employees and tested to ensure these individuals were added to the risk management driver database;
- Tested a six month period for monthly Motor Vehicle Division (MVD) credential changes and tested for proper follow-up by risk management; and,
- Obtained a fuel usage report for a six month period and identified the top ten user vehicles and employees and inquired as to the reasonableness of this usage with fleet facilities based on the employees' job duties.
- Followed up on County vehicle personal use incident reports referred to the County Attorney and Internal Audit via an ethics ordinance investigation dismissal of incident report dated November 7, 2011.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

Significant high or moderate risk observations are listed below.

- **Take-home vehicle use**—There was one of 36 take-home vehicles tested that did not have an authorization form on file which caused an employee not to be taxed in accordance with IRS guidelines. In addition this vehicle did not appear to be used for County business and instead was primarily used to commute to and from work. The Policy should be clarified to explain proper vehicle use and business purpose. In addition, each calendar year Deputy County Managers should review the authorization forms to ensure each vehicle is properly signed out to an employee and the employee still has a valid business use for the vehicle.
- **Nonstandard procedures among departments for day use and take-home vehicle usage**—The current policy is silent on a range of procedural differences between departments for checking out/in day use vehicles and take-home vehicles. We recommend the policy be more defined and explicitly outline the process differences for departments that have alternate procedures.
- **Motor vehicle division monthly checks**—The monthly MVD credential changes review performed by risk management included no evidence of what corrective action was taken for the drivers whose licenses were not in good standing. A process should be created to ensure the employees whose licenses are suspended or revoked are not using county vehicles.
- **Review of fuel usage**—Based on our department interviews it appears that fuel usage report review is inconsistent and that not all department directors are taking full responsibility for their department's fuel usage. The County Manager should remind department directors whose departments utilize day use and/or take home vehicles that it is their responsibility to monitor fuel usage and investigate unusual activity.

Further details on these observations as well as other lower risk observations are included in the attached detailed report.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action taken for each observation.

REDW LLC

December 1, 2011

Bernalillo County Internal Audit

Vehicle Use/Take-Home Vehicles

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Bernalillo County Internal Audit Vehicle Use/Take-Home Vehicles Report

INTRODUCTION

We performed an internal audit of the Bernalillo County vehicle usage and the authorization of use for take-home vehicles. Our services were conducted in accordance with the *Consulting Standards* issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

We held an entrance conference on April 18, 2011, with management staff to discuss the timing and scope of the audit. We also held an exit conference on August 3, 2011, to discuss the observations and recommendations. Management responses were due on August 17, 2011, and were received on October 5, 2011. In addition, we followed up on County vehicle personal use incident reports referred to the County Attorney and Internal Audit via an ethics ordinance investigation dismissal of incident report dated November 7, 2011. Management response to this item was received on December 14, 2011.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

The objective of the internal audit was to evaluate and test compliance with policies and procedures for vehicles including calculation of fringe benefits, proper approval to support take-home vehicles, and proper tracking of day use vehicles.

SCOPE AND PROCEDURES PERFORMED

Interviews—In order to gain an understanding of the processes and controls over operations, we interviewed the following personnel:

- Geri Maestas, Financial Projects Coordinator
- Randy Baca, Fleet Administrator
- Toby Perea, Fleet Facilities Director
- John Vialpando, Service Writer

- Joseph Crelier, Loss Control Administrator
- Virginia Chavez, Employment Manager

Policies and procedures—In order to understand Bernalillo County policies and procedures, we read the following:

- Administrative Instruction 22(A) Vehicle Use/Take-Home Vehicles

Testwork—We performed the following testwork:

- Obtained the fixed asset listing of vehicles and selected a statistical sample of 59 County vehicles (based on a 95% confidence level (CL) and 5% tolerable deviation (TD)) and performed the following:
 - For take-home vehicles we obtained the “Take-home Vehicle Authorization” form and tested that it was properly completed and approved.
 - For day use vehicles we obtained an understanding of the procedures for checking out/in a vehicle and obtained the day use logs for the period of October 2010 through March 2011. We inspected the logs and tested whether a checked-out vehicle was signed back in on the same day before the close of business.
- Obtained a listing of all employees who qualify for fringe benefits. Selected a statistical sample of 21 payroll disbursements for the period of October 2010 through March 2011 (based on a 90% CL and 10% TD) and tested for accuracy and completeness of the fringe benefit calculation. Additionally, we tested that the employees who have take-home vehicle privileges and are not receiving fringe benefits are truly exempt.
- Obtained the monthly Risk Management MVD drivers license check for the period of October 2010 through March 2011 and inspected the reports for evidence of follow-up on employees listed as having licenses that were expired, suspended, or revoked.
- Selected a sample of five County employees who were hired January 2011 through June 2011 and tested that risk management added these individuals to the driver database at the time of hire.
- Completed an analysis of fuel usage for the months of October 2010 through March 2011 to identify any unusual fuel usage trends.
- Followed up on County vehicle personal use incident reports referred to the County Attorney and Internal Audit via an ethics ordinance investigation dismissal of incident report dated November 7, 2011.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses:

1) Use of Take-Home Vehicle

In accordance with AI 22 (A) Take-Home Vehicle Procedures, each qualified employee must complete a take-home vehicle authorization form and have it approved by the appropriate Deputy County Manager. Personal use of the vehicle is a taxable fringe benefit. There was 1 of

36 (3%) take-home vehicles tested that did not have an authorization form on file which caused an employee not to be taxed in accordance with IRS guidelines. In addition this vehicle did not appear to be used for County business and instead was primarily used to commute to and from work. Once it was identified that a form had not been completed and the use was not authorized, this employee submitted the form and was taxed for previous use.

Recommendation

AI 22 (A) Take-Home Vehicle Procedures should be clarified to explain proper vehicle use and proper business purpose. In addition, each calendar year Deputy County Managers should review the authorization forms to ensure each vehicle is properly signed out to an employee and the employee still has a valid business use for the vehicle. Deputy County Managers should also ensure they have approved all take-home vehicle authorization forms.

Management Response

The Vehicle Use/Take-Home Vehicle Procedures Administrative Instruction (AI-22A) will be revised to incorporate language regarding an annual review of all Vehicle Take-Home authorization Forms, a sign off by the applicable Deputy County Manager to ensure each vehicle is properly assigned to an employee, and a definition of “proper vehicle use” and “proper business use.” In addition, staff will ensure that all vehicle authorization forms will be approved by the applicable Deputy County Manager.

2) *Nonstandard Procedures Among Departments For Day Use and Take-Home Vehicle Usage*

The current policy is silent on a range of procedural differences between departments for checking out/in day use vehicles and take-home vehicles. For instance, the Sheriff’s Department does not have a written approval process for permanent assignment to vehicles. Instead the Sheriff’s Department utilizes an “Inspection Sheet” filled out by the deputy using the vehicle which details the condition and contents of the vehicle. This form is not approved and/or authorized and is used to merely document the condition of the vehicle and reinforce the concept of accountability. Similarly, the Fire Department does not use a daily check in/out sheet for day use vehicles but rather employees are responsible for completing a daily inspection of their vehicles.

Recommendation

When updating the policy, key procedural differences in departments like Sheriff’s and Fire should be included. Standardized forms should be implemented County-wide to ensure compliance and consistent application and usage among departments. The standardized form should include at a minimum: vehicle number, name, supervisor approval and date, and time and reason for use if applicable. Additionally, items such as supervisor approval and approval date should be considered as potential requisite items to achieve best practices.

Management Response

Take-home and daily-use vehicle Administrative Instruction (AI FL02) has been revised by County staff to provide standardized instructions with regard to daily-use and take-home vehicle usage. Daily-use vehicles are department pool vehicles that are used by multiple employees. AI FL 02 addresses departmental responsibility with regard to daily-use and take-home vehicles.

The Sheriff's and Fire Departments have additional internal procedures regarding use of vehicles.

The budget, fleet/facilities and risk management departments will collaborate to make necessary revisions to the Vehicle Take-Home Authorization Form for take-home vehicles. A sample daily-use vehicle log will be created and both forms will be made available to all departments via the intranet.

In addition, a GPS tracking system is in the process of being implemented in 700 of the 1,100 County units. An initial 200 vehicles will be outfitted with GPS units by October 1, 2011. This will provide oversight for proper use of the vehicles and monitoring of fuel usage.

3) Motor Vehicle Division Monthly Checks

The monthly MVD credential changes review performed by Risk Management included no evidence of what corrective action was taken for the drivers whose licenses were not in good standing.

Recommendation

A process should be created, and added to the policy, to ensure the employees whose licenses are suspended or revoked are not using County vehicles. A formal document should be created to track communication between Risk Management and these employees/departments.

Management Response

The Risk Management Department receives a bi-weekly update from the New Mexico Department of Motor Vehicles listing employees and the status of their driver's license. When an employee has a problem with their driver's license (suspended, expired, revoked), Risk Management notifies department directors in writing. Department directors are asked to remove the employee from driving County vehicles until proof of correction is provided to Risk Management. A subsequent MVD check is performed to confirm the correction.

Record-keeping instructions to support this activity will be written by Risk Management. Risk Management will provide training on this activity to their staff. Once notified by risk management and/or the department of the employee whose license has been suspended, the fleet/facilities department will place the employee on inactive status so they are unable to fuel vehicles at County sites and the employee's PIN will be inactivated for the Wright Express (WEX) card for the period of suspension. The WEX card will remain with the vehicle.

The fleet/facilities department will only reactivate the fuel card upon receipt of a written formal activation request from either risk management or the employee's Department. Information can be provided via e-mail, or via work order, to the fleet/facilities director or designated person immediately upon discovery of an invalid license and upon confirmation of a corrected license problem.

4) Review of Fuel Usage

The fleet facilities department runs a monthly fuel usage report of each department's consumption for the current month compared to the same month in prior years and other reports to identify outliers and multiple fueling on the same day. This report is maintained on the

intranet. Based on our department director interviews it appears that fuel usage report review is inconsistent and that not all department directors are taking full responsibility for their department's fuel usage.

Recommendation

The County Manager should remind department directors whose departments utilize day use and/or take home vehicles that it is their responsibility to monitor fuel usage and investigate unusual activity.

Management Response

The Manager will issue reminders at Quarterly Directors Meetings (included in the agenda) as a requirement to review their respective assigned vehicles.

5) *Incomplete Usage Logs*

Check-out or check-in times were not documented in multiple instances for eight of the 59 vehicles tested. Usage of one of the vehicles tested was not documented for nineteen days, although this vehicle appeared to be used daily during the six month period. Thus this gap indicated the log was not used for a period of time.

Recommendation

All departments should be required to use the day-use log and document the date and time when vehicles are used to provide the most accurate and useful tracking information. Standardized tracking forms should be created to ensure the policy is consistently followed.

Management Response

Take-home and daily-use vehicle Administrative Instruction (AI FL02) has been revised by County staff to provide standardized instructions with regard to daily-use vehicle usage. Daily-use vehicles are department pool vehicles that are used by multiple employees. The budget, fleet/facilities and risk management departments will collaborate to create a sample daily-use vehicle log. This form will be made available to all departments via the intranet for those departments that need to use it. County department directors will be responsible for enforcement of the policy and consequences for noncompliance.

6) *Noncentralized Oversight Function*

The oversight function for determining driver eligibility, monitoring vehicle usage and ensuring nonexempt employees who have take-home vehicles are added to the fringe benefit calculation listing is primarily spread among three departments: Risk management, fleet facilities and finance. This decentralization can lead to inefficiencies and communication breakdowns which result in delayed notifications of driver changes, assignments, and eligibility.

Recommendation

The departments involved should consider centralizing the oversight function to one department or create a set of standard procedures and time intervals for how and when these departments should communicate any changes and/or issues that arise during the normal course of business.

This will help ensure new employees and changes to employees are updated timely and information is not overlooked. Evidence of this communication should be retained.

Management Response

The fleet/facilities, risk management and budget departments will collaboratively establish a standard set of procedures. This will include a calendar of events, which will address how departments should communicate changes/issues and instructions regarding when departments are to submit forms to payroll. The standardized Daily-Use and Take-Home Vehicle Forms should reside on the fleet/facilities department’s web site on the County’s intranet site, for all county departments to use. Forms will be updated to include information regarding whether or not fringe benefits need to be addressed by payroll and those forms should be provided to payroll (Budget Department).

Departments are responsible for submitting the Vehicle Take Home Authorization Forms to Finance for all new take-home vehicles. Once a year in December each department will be responsible for submitting a complete list of all take-home vehicles and identifying exempt and nonexempt vehicles. Finance would then implement the fringe benefit calculation per IRS regulations for nonexempt vehicles. Finance will send annual reminders in December to departments to provide this list. A standardized procedure and calendar of events will be established so that departments provide the necessary information to fleet/facilities, risk management and the budget department.

The procedures will address updates by departments when there are changes in the assignment of take home vehicles. Department directors are responsible for notifying pertinent departments whenever there are any changes regarding take-home vehicles. Risk management can introduce and reinforce the use of a standard form during driver awareness classes and review actual usage of forms during department evaluations. County department directors will be responsible for the enforcement of the policy, communicating any changes to the applicable departments and ensuring compliance for their department.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

REDW LLC

December 1, 2011