

County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section**

Special Districts Department: Vehicle Audit



Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector

268 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 382-3183

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

Mission Statement

The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

Audit Team

Denise Mejico
Chief Deputy Auditor

Mary Barber, CPA
Internal Audits Manager

Rachel Ayala
Supervising Internal Auditor III

Phaedra Green
Internal Auditor IV

Sakura Younger
Accountant III

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



- 268 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 890-4045
- 268 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 890-5797

Matt Brown
Assistant Auditor-Controller/Treasurer/Tax Collector

John Johnson
Assistant Auditor-Controller/Treasurer/Tax Collector

November 29, 2016

Jeff Rigney, Director

Special Districts Department
157 West 5th Street, 2nd Floor
San Bernardino, CA 92415-0450

SUBJECT: SPECIAL DISTRICTS DEPARTMENT VEHICLE AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Department of Special Districts' vehicles for the period of July 1, 2014 through August 31, 2015. The primary objectives of the audit were to determine if the Special Districts Department (Department) has effective procedures and controls over its light duty vehicles and to determine if the number of light duty vehicles owned by the Department and/or assigned by Fleet Management is appropriate to meet the business needs of the Department. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on August 15, 2016 and discussed our observations with management on August 22, 2016. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Department of Special Districts who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: 
Denise Mejico
Chief Deputy Auditor

Distribution of Audit Report:

- Robert Lovingood, Vice Chair, 1st District Supervisor
- Janice Rutherford, 2nd District Supervisor
- James Ramos, Chair, 3rd District Supervisor
- Curt Hagman, 4th District Supervisor
- Josie Gonzales, 5th District Supervisor
- Gregory C. Devereaux, Chief Executive Officer
- Grand Jury
- Auditor-Controller Audit Committee

Date Report Distributed: 11.29.14

OV:DLM:PMG:



Special Districts Department: Vehicle Audit

Executive Summary	1
Audit Background	3
Scope, Objectives, and Methodology	4
Audit Findings and Recommendations	5



Summary of Audit Results

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Department's light duty vehicles.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to our *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	Finding: Employees' commuting days used to calculate the taxable fringe benefits were not reported to Central Payroll.	5
	Recommendation: We recommend management ensure that the use of all take-home vehicles is included in the semi-annual assigned vehicle reporting to Central Payroll so that the employees' W-2's can accurately reflect all taxable income. We further recommend that management educate the Department personnel on the County Policy so that they fully understand their responsibility for properly recording all vehicle usage activity.	
2	Finding: Department personnel used County vehicles for unauthorized personal use.	6
	Recommendation: We recommend that management maintain and review records of the Department's vehicle usage so that instances of unauthorized use of County vehicles can be immediately addressed. Management should also reinforce compliance with the County's policy by educating Department personnel about the policies and procedures regarding the proper use of County vehicles.	



Finding No.	Findings and Recommendations	Page No.
3	<p>Finding: The monitoring controls over the Department's use of County vehicles need to be improved.</p> <p>Recommendation: In order for the Department to strengthen the control structure over the use of County vehicles, we recommend that management adopt comprehensive policies and procedures regarding the usage and monitoring of the Department's vehicles.</p>	8



Special Districts Vehicle Fleet

The Special Districts Department (Department) provides management, administrative, municipal, and business services and solutions to districts throughout the County of San Bernardino. These services are offered through three divisions: Water and Sanitation, Regional Operations, and Engineering. The Department maintains a fleet of vehicles that includes heavy equipment, special utility and light duty vehicles in order to support its operations. The fleet is secured at the various district offices and divisions throughout the County region.

Department vehicles are generally required to be returned to the district offices by the end of each business day. Several Department employees have been authorized to commute to and from work in the County vehicle. Therefore, the Department is required to submit the Assigned Vehicle Report to Central Payroll on a semi-annual basis so that the taxable fringe benefit is included in the employee's income and reported to the Internal Revenue Service.



Scope and Objectives

Our audit examined the Department's vehicle fleet and usage activity for the period of July 1, 2014 through August 31, 2015. Our audit was primarily focused on the usage of the Department's light duty vehicles. We conducted our fieldwork at the Special Districts Administration Office, the Water & Sanitation Division, and Big Bear Valley Recreation & Park District.

The objectives of our audit were to:

- Determine if the Special Districts Department has effective procedures and controls over its light duty vehicles.
- Determine if the number of light duty vehicles owned by the Department and/or assigned by Fleet Management is appropriate to meet the business needs of the Department.

Methodology

In achieving the audit objectives, the following evidence gathering and analysis techniques were used, including but not limited to:

- Reviewing the Internal Revenue Service Publication 15-B (*Employer's Tax Guide to Fringe Benefits*), San Bernardino County Policy 03-10SP1 (*Vehicle Service Rules and Procedures*), and the San Bernardino County Internal Controls and Cash Manual.
- Interviewing Department management and other personnel that were involved with the Department's vehicle operations.
- Reviewing the Department's vehicle inventory listing generated by Fleet Management, the Assigned Vehicle Report submitted to Central Payroll for taxable fringe benefit reporting, and operation schedules related to take-home vehicles.
- Conducting an inventory of the light duty vehicles at various Department locations.
- Evaluating the monitoring of the Department's light duty vehicles.



Finding 1: Employees' commuting days used to calculate the taxable fringe benefits were not reported to Central Payroll.

In order to properly report the taxable benefits to the Internal Revenue Service (IRS), the Auditor-Controller/Treasurer/Tax Collector's Central Payroll Section (Central Payroll) requires each department to complete the Assigned Vehicle Report. The Assigned Vehicle Report includes all individuals who were assigned a Category V vehicle during the reporting period. According to County Standard Practice 03-10 SP1, Category V vehicles are:

"Vehicles assigned to an individual on a full or part-time basis which the employee is required, for business purposes, to use for commuting to/from work. No personal use, other than commuting and de minimis (very limited) personal use, is permitted by the employee or any of the employee's dependents. The IRS-established value of this commuting use will be included in the employee's taxable income report to the taxing authorities."

Commuting use of a vehicle is considered a taxable fringe benefit under IRS regulations. The Department authorizes the use of County vehicles for commuting purposes for employees that are assigned to the "on-call" rotation. During our fieldwork, we conducted an inventory of the vehicles used by employees to commute to and from work. Out of the 55 vehicles inventoried, we noted that 5 were taken to the employees' personal residences but were not reported to Central Payroll on the Assigned Vehicle Report. Consequently, the taxable fringe benefit was omitted from the employees' taxable income reported to the IRS on the employees' W-2 forms.

Management was unaware that allowing on-call employees commute to and from work in a County-owned vehicle is a taxable fringe benefit under IRS regulations, even if the vehicle is taken home for the convenience of the employer. The employees' taxable income will not be accurately reported to the IRS if the employees' vehicle-related fringe benefits are not submitted to Central Payroll. Furthermore, employees may be subject to penalties, interest, and additional taxes if all of their income is not properly reported to the IRS. Additionally, the County may be subject to penalties and interest.

Recommendation:

We recommend management ensure that the use of all take-home vehicles is included in the semi-annual assigned vehicle reporting to Central Payroll so that the employees' W-2's can accurately reflect all taxable income. We further recommend that management educate the Department personnel on County



Standard Practices so that they fully understand their responsibility for properly recording all vehicle usage activity.

Management's Response:

Management will properly document all specialty vehicles and report those as exempt when applicable. Pictures will be taken to document all specialty vehicles and will be kept on file in the department. All other vehicles that are not specialty vehicles will be reported properly. The vehicles will be included on the biannual vehicle report provided to ATC listing the taxable fringe benefit with the mileage stated.

Auditor's Response:

The Department's plans will correct the deficiencies noted in the finding.

Finding 2: Department personnel used County vehicles for unauthorized personal use.

County Standard Practice 03-10 SP1 - Vehicle Services and Procedures, states that all vehicles in the County Motor Pool will be assigned into one of five categories (Categories I, II, III, IV, and V). For Category V vehicles, no personal use of County vehicles, other than commuting and de minimis personal use, is permitted by the employee or any of the employee's dependents. In addition, the Code of Ethics and Commitment to County Public Service, Section 7 – Use of Public Property, states "*Officials and employees are prohibited from using County-owned equipment, materials, or property for personal benefit or profit unless specifically authorized by the Board of Supervisors as an element of compensation.*"

Due to the nature of the business, the Water & Sanitation Division (Division) maintains an "on-call" rotation schedule for several of their employees. These particular employees are only permitted to commute to and from their work location in the County vehicle when they are scheduled to be "on-call". Otherwise, the County vehicles must be parked at one of the assigned Water & Sanitation subdivisions during non-business hours. However, in reviewing the GPS activity for vehicles associated with "on-call" employees, we noted that 3 out of 55 vehicles we tested were inappropriately driven to the employees' personal residences. We noted that these employees were not scheduled to be on-call and therefore, were not authorized to use the County vehicle for personal commuting purposes.



The vehicles assigned to the Big Bear Valley Recreation & Park District (District) are required to be parked at either the District's main office or the Zoo during non-business hours. According to District Management, there are a few employees that, due to the responsibilities of their position, are authorized to commute to and from work in a County vehicle because they are on a perpetual "on-call" status. Our audit disclosed that 3 out of 55 vehicles we tested were used for employee commuting. However, the District does not maintain any supporting documentation (e.g., an "on-call" rotation schedule) to substantiate the employees' "on-call" status. Therefore, we were not able to determine whether the employees' commute to and from work was for business or personal use.

Management has not implemented adequate monitoring procedures that would track and potentially prevent unauthorized personal use of County vehicles. If management does not establish the necessary controls to effectively monitor the employee's vehicle activity, then unauthorized personal use of County vehicles may not be identified and addressed in a timely manner.

Recommendation:

We recommend that management maintain and review records of the Department's vehicle usage so that instances of unauthorized use of County vehicles can be immediately addressed. Management should also reinforce compliance with the County's policy by educating Department personnel about the policies and procedures regarding the proper use of County vehicles.

Management's Response:

Operations Division will document and substantiate the employees who are permanently on-call and utilize a take home vehicle. The Water and Sanitation Division will review on call logs compared to vehicle usage logs to ensure compliance with the County policies.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.



Finding 3: The monitoring controls over the Department's use of County vehicles need to be improved.

The County's Internal Control and Cash Manual on page 2-2 states that by establishing internal controls, management is provided reasonable assurance that their objectives are being met in a supportive control environment. An effective control environment includes the existence of policies and procedures. Additionally, continuous monitoring of the existing control-related procedures serves to prevent the occurrence of errors.

Our audit disclosed evidence that the Department does not have effective monitoring procedures in place over vehicles. The following control deficiencies were noted:

- The Department has not established clearly defined policies and procedures for the assignment, usage, and monitoring of Department vehicles.
- Management at the Special Districts Administration Office and Big Bear Valley Recreation & Park District does not require employees to use tracking logs to capture relevant vehicle activity. The Water & Sanitation Division employees use tracking logs to record their daily usage. However, there was no documented evidence that the logs were routinely reviewed by management for any anomalies.
- The assignment of take-home vehicles depended on the specific job duties of the employees. However, the Department does not maintain any formal documentation supporting or justifying the assignment of take-home vehicles. Additionally, there was no documented approval by upper-level management.
- There are no routine reviews of the vehicles' GPS activity conducted by management. These reviews could have potentially exposed the instances of unauthorized vehicle use discovered during the course of the audit.
- The Department's fuel usage was not routinely reviewed by management. We identified instances in which:
 - Fuel purchases were made using the IDs of employees from another department or employees that were no longer employed by the County.
 - According to the records, an employee purchased over 30 gallons of fuel within 2 hours and, on a separate occasion, made another 30-gallon purchase within a 24-hour period. Management indicated that



the employee may have used the wrong vehicle number when the purchases were transacted.

- There were fuel transactions that occurred within an extremely short timeframe for the same vehicle (i.e., 3 transactions within 24 hours, 2 transactions within 4.5 hours, etc).
- Employees were not completing the correct fuel logs when fuel purchases were transacted. It appeared that employees purchased both diesel and unleaded fuel for the same vehicle. This resulted from employees documenting their fuel purchases on the incorrect fuel tracking form (i.e., diesel fuel purchases on the unleaded fuel tracking form and vice versa).

The Department did not establish an effective control structure that encompassed all aspects of the Department's use of County vehicles. Without critical control procedures, such as performing routine reviews of vehicle activity or justifying the assignment of take-home vehicles, the likelihood that employees will intentionally or inadvertently misuse County-owned vehicles and fuel and the misuse will go undetected by management is increased.

Recommendation:

In order for the Department to strengthen the control structure over the use of County vehicles, we recommend the following:

- Adopt comprehensive policies and procedures that include detailed guidelines regarding the assignment, daily usage, and monitoring of County vehicles.
- Instruct Department personnel on the policies and procedures for the appropriate use of County vehicles and formally document this instruction.
- Require all employees to use a uniform vehicle tracking log to document the beginning and ending mileage of their daily vehicle usage. The employees should sign and date these tracking logs and submit them to management at least monthly.
- Implement monitoring procedures that will require management to review the monthly vehicle usage reports and the vehicle's GPS activity. These particular reviews will allow management to immediately address any anomalies related to the vehicle usage. Additionally, management should document evidence of their review by signing and dating the monthly reports.



- Establish a centralized authority for approving all Department take-home vehicle assignments, including the vehicles associated with the “on-call” rotation. The Department should maintain the documented justifications for all take-home vehicle assignments.
- Perform annual assessments of all take-home vehicle assignments to determine if the justifications for the take-home assignments are still operationally necessary.
- Establish and implement monitoring control procedures for the Department’s fuel usage. These procedures should include monthly reviews of the fuel usage reports so that any anomalies identified can be immediately investigated.

Management’s Response:

Management will be meeting with Fleet Management to discuss potential improvements in procedures on both the department side as well as Fleet Management side. In addition, management will monitor GPS and fuel reports as appropriate to ensure compliance with County policies. Finally, employees will be reminded of the correct practices and procedures for department vehicle usage.

Auditor’s Response:

The Department’s planned actions will correct the deficiencies noted in the finding.