

**Performance Audit 18-01:  
Take Home Vehicles**

**May 2018**

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

Barry Teague, CPA, CFE, CGMA





# OFFICE OF INTERNAL AUDIT

## Stan Sewell, City Auditor

May 15, 2018

To: Mayor Andy Berke  
City Council Members

Subject: Take Home Vehicles Audit (Report 18-01)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of take home vehicles. Our audit found policy violations, including take home vehicles in use when eligibility criteria had not been met and employees utilizing take home vehicles without proper approvals. The take home vehicle policy provides guidance on qualifications for take home vehicles. However, we found the policy lacks measurable criteria to aid in determining some eligibility factors. We also found the policy lacks key elements to ensure the proper assignment and use of take home vehicles. Further, IRS regulations for take home vehicles are not currently being followed.

In order to address the noted areas for improvement, we recommended various revisions to the *Employee Information Guide* including assignment of responsibility for ensuring the proper process is being followed.

We thank the management and staff of the Fleet Division, Chattanooga Police Department, Chattanooga Fire Department, Public Works Department, Transportation Department, Air Pollution Control Board, City Attorney's Office and Payroll Division for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

cc: Audit Committee Members  
Stacy Richardson, Chief of Staff  
Maura Sullivan, Chief Operating Officer  
Daisy Madison, Chief Financial Officer  
Justin Holland, Administrator, Public Works  
Gary Franks, Fleet Director  
Phil Noblett, City Attorney's Office  
Jim Arnette, Tennessee Local Government Audit

## TABLE OF CONTENTS

AUDIT PURPOSE.....	2
BACKGROUND.....	2
Statistical Information.....	3
FINDINGS AND RECOMMENDATIONS.....	3
Improvements are needed to the take home vehicle policy.....	3
City practice does not conform to IRS regulations.....	3
No documentation proving eligibility is required for take home vehicles.....	4
An insurance requirement is not stated in the take home vehicle policy.....	6
Acknowledgement of employee’s acceptance of their responsibilities and City expectations for a take home vehicle is not documented...6	6
No controls are in place to provide reasonable assurance vehicles are not used for personal purposes.....	7
Portions of the policy are not followed.....	9
Driving record reviews are not being performed.....	9
Departments have not furnished required reports of take home vehicles to the Fleet Director.....	10
Take home vehicles are driven to residences outside the county and state.....	10
The mileage rate charged for employees commuting with take home vehicles is incorrect.....	11
APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS.....	12

---

## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2018 Audit Agenda. The objectives of this audit were to:

- Determine if the take home vehicle policy establishes clear guidelines to ensure the use of take home vehicles benefits the City and provides adequate procedures to ensure compliance;
- Confirm rules related to take-home vehicle policies are followed;
- Verify the City reports vehicle usage in accordance with pertinent Internal Revenue Service taxation rules and regulations.

---

## BACKGROUND

Division managers, through the Fleet Director, are responsible for the administration of the take home vehicle program within their own areas. They are charged to ensure employee activities involving the program are monitored and any indiscretions are investigated and, if necessary, reported to the Fleet Director for action. The Fleet Division has recently become part of the Public Works Department with a new Fleet Director assigned. The take home vehicle policy assigns responsibility for final approval of take home vehicles to the Chief Financial Officer (CFO).

Per the *Employee Information Guide* (EIG), it is the intent of the City to provide effective and efficient usage of all City vehicles in order to provide the best service possible to citizens. The take home vehicle program is designed to benefit the public through quick response by employees during non-normal work hours.

A City employee may be eligible for a take-home vehicle if the employee is: (1) subject to frequent after-hours callback; (2) such call back arrangements are to locations other than the employee's normal duty station; (3) a special vehicle, tools, parts, or equipment are required to perform after-hours assignments, and (4) an unacceptable delay in the response would result from the employee's return to the normal duty station to retrieve the needed equipment. The policy states take-home vehicles may not be used for commuting travel outside of Hamilton County.

### Statistical Information

We identified 395 take home vehicles in the City of Chattanooga fleet.

Take Home Vehicles, by Department	
Police	340
Fire	30
Public Works	21
City Court	2
Air Pollution Control Board	1
Transportation	1
<b>Total Take Home Vehicles</b>	<b>395</b>

Source: Fleet Division and Departmental Records

---

## FINDINGS AND RECOMMENDATIONS

### Improvements are needed to the take home vehicle policy.

The take home vehicle policy is included in the Use of City Vehicles section in the EIG. All City employees received training and access to the EIG upon its initial release in September 2015. However, efforts were not made by department heads, nor the Fleet Manager, to ensure compliance with the take home vehicle eligibility requirements by employees already assigned take home vehicles. In addition, an administrative process to document eligibility for new vehicle assignments was not put into place.

Guidance related to take home vehicles is spread throughout the EIG (Vehicle Accident Policy beginning on page 73 and Use of City Vehicles beginning on page 146). Human Resources and the City Attorney’s Office are currently working to revise the take home vehicle policy section of the EIG. We have shared our recommendations with them and they are working to incorporate our suggestions into the policy.

### City practice does not conform to IRS regulations.

The City practice does not require employees with take home vehicles to pay commuting mileage if they live within the City.

IRS Regulations<sup>1</sup> require mileage for commuting be paid (or imputed) for all take home vehicles. Sworn personnel are excluded if they are required to drive the vehicles home and the policy prohibits personal use other than commuting.<sup>2</sup> The City of Chattanooga does not require

---

<sup>1</sup> See Publication 15-B

<sup>2</sup> See IRS Publication 15-B and 26 CFR 1.274-5 (k) (3)

assigned vehicles be driven home by sworn officers, but rather, allows those choosing to do so.

Sworn personnel living within the City have not paid commuting mileage since July 2013. Non-sworn employees living in the City pay no commuting charges.

Alternatively to mileage charges, IRS Pub 15-B allows an employee be charged \$1.50 per trip for a take home vehicle, or a total of \$3.00 per day for commuting charges if no personal use is allowed.

A memo issued by the Office of Internal Audit, dated March 8, 2013, advised that if sworn officers were not required to drive their vehicles home, commuting charges were applicable. The memo also included information regarding the ability to charge flat commuting fees of \$3.00 per day.

### **Recommendation 1:**

We recommend all sworn personnel living within the City (or County) be required to drive their vehicle home **or** those choosing to use their vehicle be required to pay commuting charges.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

### **Recommendation 2:**

We recommend all non-sworn employees with take-home vehicles be charged commuting mileage.

***Auditee Response** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

### **No documentation proving eligibility is required for take home vehicles.**

Upon issuance in September 2015, the EIG did not assign responsibility to a specific position/official to compile a listing of existing employees with take home vehicles and document their eligibility. As a result, there was no assessment of eligibility for employees already assigned a take home vehicle.

The take home vehicle policy clearly states eligibility and approval requirements that must be met prior to an employee having a take home vehicle. However, the policy does not require an employee's

qualifications and approval be documented. Further, some eligibility criteria are not clearly defined.

The EIG requires approval by the department administrator and CFO prior to a take home vehicle being issued. The CFO was not aware of this responsibility prior to our review of the policy with her. No requests have been made of and the CFO has not approved any City employee having a take home vehicle.

### **Recommendation 3:**

We recommend the take home vehicle policy be revised to require documentation of eligibility criteria on a standard form. In addition, the policy should be revised to contain quantitative measures that justify a take home vehicle. At a minimum, the policy should mandate an average number of after-hours callbacks per month to qualify as meeting the “frequent” callback requirement.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

### **Recommendation 4:**

We recommend the policy be enforced by department/division heads and revised to require the **written** approval of both the department head and CFO prior to issuance of a take home vehicle. Approvals could be documented on the standard eligibility form recommended above.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

***Chief Financial Officer comment:** Final approval for take home vehicles should be granted in the Executive Office, by the Mayor or his/her designee. This was the process in a previous (2006) policy.*

***Auditor Comment:** The current policy has designated the CFO as the final authority over (and approver of) take home vehicles. The Mayor may be an acceptable point of review for authorization. However, unless and until the policy is changed, the CFO should approve all take home vehicles.*

### **Recommendation 5:**

We recommend the Fleet Director immediately compile a complete list of employees currently provided with a take home vehicle and ensure

the standard eligibility form is completed for each. A deadline should be established for completion of this initial determination.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

### **An insurance requirement is not stated in the take home vehicle policy.**

The take home vehicle policy does not require drivers of take-home vehicles to have an insurance rider on their personal policies with the City named as an additional insured, as required by state law.

This omission creates a lack of guidance as to the minimum insurance limits necessary for drivers of take home vehicles to carry. T.C.A. 29-20-403 currently requires minimum coverage limits of \$300,000 for bodily injury or death of any one (1) person in any one (1) accident, occurrence or act, and not less than \$700,000 for bodily injury or death of all persons in any one (1) accident, occurrence or act, and one hundred thousand dollars \$100,000 for injury or destruction of property of others in any one (1) accident, occurrence or act.

### **Recommendation 6:**

We recommend the EIG be revised to require drivers' of take home vehicles personal insurance policy include a rider with the City as an additional insured with minimum liability figures as stated in T.C.A. 29-20-403. The policy should require documentation of this rider be provided to the Fleet Director and the Risk Analyst (City Attorney's Office). In addition, the eligibility form recommended above should include an acknowledgement of this requirement.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

***City Attorney Response:** We concur with the audit finding and recommendation.*

### **Acknowledgement of employee's acceptance of their responsibilities and City expectations for a take home vehicle is not documented.**

As recommended elsewhere in this report, documentation should be required to support eligibility for, and approval of, a take-home vehicle. We have further recommended documentation of an insurance rider be provided by employees with take-home vehicles.



Employees furnished a take-home vehicle should acknowledge in writing they understand their responsibilities related to City vehicle usage. This could be accomplished on the eligibility form recommended above or with a separate agreement.

### **Recommendation 7:**

We recommend the eligibility form recommended above include acknowledgement by the employee they understand all vehicle use provisions of the EIG and they specifically understand their responsibility to:

- a) Provide an annual (current) insurance rider,
- b) Use the vehicle only for commuting and City business,
- c) Notify their supervisor, the Risk Analyst and the Fleet Director of any traffic violations or driver license suspensions/revocations,
- d) Notify their supervisor, the Risk Analyst and the Fleet Director of any accident involving a City vehicle,
- e) Verify vehicle safety daily,
- f) Ensure proper preventive maintenance,
- g) Ensure the vehicle is always properly secured.

A copy of this form should be maintained in the department level employee file, the Human Resources Department employee file and the original should be provided to the Fleet Director prior to delivery of the take-home vehicle to the employee. The Fleet Director should be authorized and required (by policy) to take possession of any take-home vehicle lacking the required eligibility form or lacking a current insurance rider on file.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

**No controls are in place to provide reasonable assurance vehicles are not used for personal purposes.**

The EIG provides statements prohibiting the personal use of take home vehicles:

- “No personal use of take-home vehicles is permitted. No passenger may be transported in take-home vehicles except as required for official duties or as approved by the Department Head.”
- “Transportation, while off duty, of family members and friends is not permissible in City vehicles without prior approval.”
- “Off duty use is restricted to City of Chattanooga related functions, i.e., traveling on City business, to and from training seminars, public meetings, etc.”

There is a confusing, and possibly conflicting, statement regarding personal use of the vehicles: “Family members are permitted to be in the vehicle when the employee is operating the vehicle.”

City Code section 2-756 states “An official or employee shall not use or authorize the use of municipal time, facilities, equipment or supplies for private gain or advantage to himself or herself.”

Established controls are not in place to provide reasonable assurance vehicles are used only for City business purposes. Police officers are encouraged to use their patrol vehicles while working second jobs. IRS regulations require employees pay mileage for personal use of vehicles (or wages be imputed). If personal use of City vehicles is allowed, mileage logs must be maintained.

### **Recommendation 8:**

We recommend the take home vehicle policy be revised to clarify the requirement that personal use of vehicles is not allowed. The various statements on pages 150, 151 and 153 referenced above should be consolidated into one clear policy statement. In addition, the Fleet Division should implement a periodic review process to ensure employees with take-home vehicle privileges are complying with the policy.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

### **Recommendation 9:**

If the EIG is not revised to prohibit all personal use of City vehicles, we recommend the policy require mileage logs be maintained and forwarded to the Payroll Division of the Finance Department monthly. The Fleet Division should develop a standard mileage log for detailing

commuting, business and personal trips. In addition, City Code Section 2-756 must be revised prior to any such policy revision.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

**Portions of the policy are not followed.**

### **Driving record reviews are not being performed.**

As part of the hiring process, when the position requires driving, a search is performed on the prospective employee to ensure they have an active driver's license. In addition, their driving history is reviewed for traffic violations and accidents. After hiring, no systemic checks of driving history are performed. The take home vehicle policy states an employee may be ineligible for the program if they have a poor driving record. However, no investigation of driving records is performed prior to awarding a take home vehicle.

CPD always checks driving records at the time of hire, but not after that time. The newly appointed Fleet Director indicated there was little tracking of take home vehicles performed in the past. As a result, employees with poor driving records can be provided take home vehicles with the City having no knowledge of their driving record.

### **Recommendation 10:**

We recommend the Fleet Director and the Risk Analyst in the City Attorney's Office lead an effort to ensure all City driver's files are updated, as well as ensuring periodic review takes place of driving history for employees with take-home vehicles.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

***City Attorney Response:** We concur with the audit finding and recommendation.*

### **Recommendation 11:**

We recommend the EIG be revised to require an employee's driving record be reviewed by the Risk Analyst in the City Attorney's Office prior to issuance of a take home vehicle. Take-home vehicle assignment should only occur upon recommendation of the Risk Analyst.

***Auditee Response:** We concur with the audit finding and recommendation.*

*City Attorney Response: We concur with the audit finding and recommendation.*

### Departments have not furnished required reports of take home vehicles to the Fleet Director.

The take home vehicle policy requires Administrators whose departments operate take home vehicles to report the take home vehicles and drivers by July 1 each year. This requirement has not been met by any department.

The lack of reports filed with the Fleet Division results in there being no complete listing of take home vehicles. The Fleet Division cannot determine if proper approvals and insurance are in place without an accurate listing.

#### Recommendation 12:

We recommend the Fleet Division design a report format, and department administrators be required to submit a list of take home vehicles in their departments immediately. Department heads should file the required report by July 1 of each year going forward. A reminder notice to department heads from the Fleet Director in June of each year will help ensure compliance.

*Auditee Response: An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

### Take home vehicles are driven to residences outside the county and state.

The take home vehicle policy allows no take home vehicle to be driven to a residence outside Hamilton County. We found two vehicles out of compliance. The residences are located in Meigs County and Rossville, Georgia. Because there is no comprehensive listing of take-home vehicles<sup>3</sup>, we are unable to determine if (or how many) others are being used for commuting outside of Hamilton County.

Vehicles outside Tennessee are not covered by state tort laws limiting liability of municipalities.

#### Recommendation 13:

We recommend the take home vehicle policy be enforced with no take home vehicles being used for commuting outside Hamilton County.

---

<sup>3</sup> See Recommendations 5 and 12 above

Employee address information should be a part of the eligibility form recommended above. As a supplemental control, the Fleet Director could periodically cross reference the take-home vehicle listing to employee address information in the Oracle system.

***Auditee Response:** An updated vehicle use policy has been drafted and submitted to the Human Resources Department which clarifies how this would be managed.*

**The mileage rate charged for employees commuting with take home vehicles is incorrect.**

The take home vehicle policy states employees driving take home vehicles will be charged 75% of the established IRS mileage rate for their commute. The rate should change each year to comply with revised IRS rates. The current rate being charged is \$0.30 per mile and is approximately 75% of the \$0.405 rate in effect for 2005. Currently, the rate (per policy) should be \$.41 per mile (75% of the 2018 rate of \$0.545).

**Recommendation 14:**

We recommend the correct IRS mileage rate be used to calculate commuting mileage deductions from income. The rate should be updated annually.

***Finance Response:** There should not be any take home vehicles that do not either qualify for the IRS exemption or the \$3 safe harbor rule. We are unaware of why the EIG spells out a rate that is 75% of the IRS mileage rate. The \$.30 per mile was an arbitrary rate put in place by a previous administration. If an employee/vehicle does not qualify for an exemption, the fringe benefit is to be considered imputed earnings and must be valued at 100%. We concur with the recommendation.*

---

## **APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS**

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the status of take home vehicles and related transactions at January, 2018. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Fleet Division, Chattanooga Police Department, Chattanooga Fire Department, Public Works Department, Transportation Department, Air Pollution Control Board, City Attorney's Office and Payroll Division. Original records, as well as copies, were used as evidence and verified through physical examination.

To evaluate the status of take home vehicles we developed a list of take home vehicles from Fleet Division records and information from departments with take home vehicles.

To develop our recommendations, we conferred with the City Officials, reviewed the Employee Information Guide, best practice documents, IRS regulations, TCA, City Code and internal memorandums.

The sample size and selection included the entire population when available. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City's Oracle payroll system. The Oracle system has been determined in the past to contain reliable information to be used in meeting the audit's objectives.

We conducted this performance audit from January 2, 2018 to March 14, 2018 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 and conclusions based on our audit objectives.

**City of Chattanooga Fraud, Waste, and Abuse Hotline**

Internal Audit's Fraud, Waste, and Abuse Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any City facility or department.

Internal Audit contracts with a hotline vendor, The Network, to provide and maintain the reporting system. The third party system allows for anonymous reports. All reports are taken seriously and responded to in a timely manner. Reports to the hotline serve the public interest and assist the Office of Internal Audit in meeting high standards of public accountability.

To make a report, call 1-877-338-4452 or visit our website:

[www.chattanooga.gov/internal-audit](http://www.chattanooga.gov/internal-audit)