

**OFFICE OF THE CITY CONTROLLER**



**PARKS AND RECREATION DEPARTMENT  
HOME STORAGE VEHICLE PROGRAM AUDIT**

**Annise D. Parker, City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

February 5, 2007

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: Parks and Recreation Department  
Home Storage Vehicle Program Audit (Report No. 2007-09)

Dear Mayor White:

The City Controller's Office Audit Division has completed a Home Storage Vehicle Program (Program) Audit at the Parks and Recreation Department (Department) covering the period January 1, 2005 through December 31, 2005. The audit's objective was to determine whether the Program was operating in compliance with Administrative Procedure 2-2 (Motor Vehicle Assignment and Use), Executive Order 1-41 (Executive Vehicle Assignment/Allowance), Departmental Standard Operating Procedures, and any applicable IRS commuting regulations.

The report, attached for your review, concludes that the Department was generally in compliance with A.P. 2-2. However, the Department may not be in full compliance with IRS regulations pertaining to taxation of fringe benefits. Also, the report noted that Program compliance and internal control weaknesses exist. The findings and recommendations identified during the audit are included in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The Views of the Responsible Officials as to actions being taken are appended to the report as Exhibit I.

We commend Department management for their timely efforts to take action to remedy all of the deficiencies identified by the audit team. We also appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker  
City Controller

xc: City Council Members  
Anthony Hall, Chief Administrative Officer  
Michael Moore, Chief of Staff, Mayor's Office  
Joe Turner, Director, Parks and Recreation Department  
Judy Gray Johnson, Director, Finance and Administration Department

## CONTENTS

LETTER OF TRANSMITTAL.....	i
PURPOSE AND SCOPE.....	1
CONCLUSION .....	1
INTRODUCTION .....	2

### FINDINGS & RECOMMENDATIONS

I. IMPUTED INCOME REPORTING.....	2
II. COMMUTER TRIPS CALCULATION METHOD.....	3
III. NON-OWNED VEHICLE INSURANCE RIDER.....	3
IV. QUARTERLY TAKE HOME VEHICLE REPORTS .....	4
VIEWS OF RESPONSIBLE OFFICIALS.....	EXHIBIT I

## PURPOSE AND SCOPE

We have completed an audit of the Home Storage Vehicle Program (the Program) within the Parks and Recreation Department (Parks). Our objective was to determine whether the Program was operating in compliance with Administrative Procedure 2-2 (Motor Vehicle Assignment and Use), Executive Order No. 1-41 (Executive Vehicle Assignment/Allowance), Departmental Standard Operating Procedures, and any applicable IRS commuting regulations.

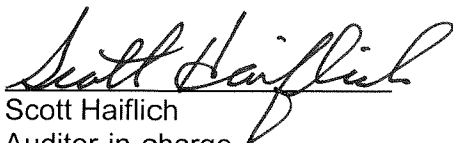
The scope of the audit was limited to the Program for the period January 1, 2005 through December 31, 2005. Our work did not constitute an evaluation of the overall internal control structure within Parks. The audit procedures were designed to: assess the level of compliance with procedures; determine adequacy of internal controls related to the Program; and, provide recommendations for improvement where appropriate.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately account for the use of home storage vehicles as an integral part of Parks' overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that home storage vehicle assignment and use complies with all applicable procedures, orders, and laws.

Due to inherent limitations in any system of internal accounting control, errors or irregularities may occur and may not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with procedures may deteriorate.

## CONCLUSION

Based on the results of our audit, we concluded that Parks was generally in compliance with A.P. 2-2. Parks, however, may not be in full compliance with IRS regulations pertaining to taxation of fringe benefits. We also concluded that Program internal control weaknesses exist. Compliance and internal control weaknesses are addressed within the findings presented in the body of the report.

  
Scott Haiflich  
Auditor-in-charge

  
Richard Martinez  
Audit Manager

  
Steve Schoonover  
City Auditor

## INTRODUCTION

Parks is headquartered at 2999 S. Wayside Dr. According to the Program data supplied by the Fleet Management Division of the Finance and Administration Department, as of December 31, 2005, Parks had approximately 50 home storage vehicles assigned to drivers. The data also reflected approximately \$61,700 in vehicle maintenance costs and \$63,100 in fuel costs during calendar year 2005, for total operating costs of approximately \$124,800. Total vehicle acquisition costs related to these vehicles totaled approximately \$976,200.

City Department Heads, or designees with a minimum classification of Assistant Director or the equivalent, are responsible for approving the assignment of Program vehicles. A.P. 2-2 establishes minimum criteria for the eligibility to be assigned a home storage vehicle. The Director of the Finance and Administration Department (under A.P. 2-2) is responsible for City-wide oversight of the Program as part of that Department's oversight of the entire City fleet, including annual audits of City Department records to assess compliance with A. P. 2-2.

## FINDINGS & RECOMMENDATIONS

### I. IMPUTED INCOME REPORTING

#### BACKGROUND

According to IRS Publication 15-B, the assignment of home storage vehicles is a fringe benefit to the employee and is therefore, taxable as imputed income. There are exceptions to the regulation and some Department employees who were assigned vehicles were exempted from being taxed for commuter trips based on the type of vehicle assigned/driven.

Drivers in each division complete, and their supervisors approve, Take Home Vehicle Imputed Wages Forms to report commuter trips each quarter. Those forms are forwarded to Parks' Management and Finance Division (M&F). M&F also receives Quarterly Mileage Reports from divisions that reflect, among other data, commuter trips for the quarter.

#### FINDING

Our testing revealed 10 instances (of 10 drivers in the sample over four quarters) in which commuter trips recorded on Quarterly Mileage Reports did not match Take Home Vehicle Imputed Wages Forms or the trips recorded in the payroll system.

Parks procedures do not include a comparison of commuter trips reported on imputed wages forms to commuter trips reported on Quarterly Mileage Reports. Accordingly, M&F forwards imputed income forms on to Central Payroll without a review for accuracy.

#### RECOMMENDATION

To improve control over the reporting of imputed income, we recommend that Parks' Deputy Director of M&F develop procedures for verifying that commuter trips are accurately reported. Procedures should minimally include comparison by Finance staff of commuter trips reported on Take Home Vehicle Imputed Wages Forms and Quarterly Mileage Reports. We also recommend that the

Deputy Director develop and conduct training related to the correct completion of Quarterly Mileage Reports and Take Home Vehicle Imputed Wages Forms.

## II. COMMUTER TRIPS CALCULATION METHOD

### BACKGROUND

IRS Publication 15-B describes the following method of calculating commuter trips to determine an employee's imputed wages (fringe benefits):

"You determine the value of a vehicle you provide to an employee for commuting use by multiplying each one way commute (that is, from home to work or from work to home) by \$1.50. This amount must be included in the employee's wages or reimbursed by the employee." The City imputes commuting income rather than employees reimbursing the \$1.50 per commuter trip.

### FINDING

Parks is not always using the correct method of calculating commuter trips. Employees who were assigned home storage vehicles were instructed not to report a commute if driving to and from secondary work locations.

It is our understanding that the IRS commuting rule does not differentiate between primary and secondary work locations for the purpose of defining a commute. A commute to "work" requires the reporting of one commute and a second commute for the return home. This translates into \$3.00 of imputed wages per day.

Based on the above IRS Publication, we tested the reporting of commuter trips calculated by employees assigned home storage vehicles and found that 28 of 41 Quarterly Mileage Reports under reported the number of actual commuter trips.

### RECOMMENDATION

To improve compliance with the IRS commuting rule, we recommend that the Deputy Director of M&F instruct all employees assigned a home storage vehicle to report commutes as defined by IRS Publication 15-B. We also recommend that the Deputy Director coordinate with Central Payroll to determine what corrective actions may be warranted related to past reporting.

## III. NON-OWNED VEHICLE INSURANCE RIDER

### BACKGROUND

Section 7.1.2 of A.P. 2-2 requires employees who are assigned a home storage vehicle to purchase and maintain a non-owned insurance rider with the minimum property damage and personal injury coverage required by state law.

Section 8.3 of A.P. 2-2 requires each Department to at least annually review the applicable records of each employee who drives on City business to determine if he/she is qualified to drive on City business.

**FINDING**

We reviewed documentation related to 10 home storage vehicle drivers and found that copies of current non-owned insurance riders were not maintained for three (30%) of those drivers. Failure to ensure that employees obtain non-owned insurance riders and that those riders are kept current puts the City at financial risk should the driver become involved in an accident while driving on City business.

**RECOMMENDATION**

To help ensure that employee non-owned vehicle insurance riders are current, we recommend that the Deputy Director of M&F include verifications of such riders when conducting annual driver qualification reviews.

**IV. QUARTERLY TAKE HOME VEHICLE REPORTS**

**BACKGROUND**

Employees assigned home storage vehicles complete Quarterly Take Home Vehicle Reports. These reports provide information related to employee identification, vehicle identification, commute data, and a record of emergency call-outs. Parks then consolidates these reports into a single report that was forwarded to the Finance and Administration Departments' Fleet Management Division.

**FINDING**

While analyzing quarterly reports submitted by employees, we noted the following control weaknesses:

- Employees did not sign their names to 18 of the 41 (44%) quarterly reports we reviewed.
- The Quarterly Take Home Vehicle Report form was designed without fields to identify the quarter being reported or a field for supervisory signature approval.

**RECOMMENDATION**

To improve control over the quarterly home storage vehicle reporting process, we recommend that the Deputy Director of M&F instruct employees (and their supervisors) who are assigned home storage vehicles to sign Quarterly Take Home Vehicle Reports in ink. Unsigned forms should be returned to employees with instructions to sign all documents submitted with signature blocks.

We also recommend that the Deputy Director revise the Quarterly Take Home Vehicle Report form to include a field to identify the quarter being reported and a field for supervisory signature approval, including the date signed.

# EXHIBIT I



## CITY OF HOUSTON

Parks and Recreation Department

## Interoffice

Correspondence

To: Annise D. Parker, City Controller

From: Joe Turner, Director

Date: December 27, 2006

Steve Schoonover, City Auditor

Subject: **Home Storage Vehicle Program  
Audit – Department's Response**

The Parks and Recreation Department agrees with the findings found in the Controller's Office audit of the Home Storage Vehicle Program within the department and offers the following responses:

### I. Imputed Income Reporting

New procedures for verifying that commuter trips are accurately reported have been implemented and instructional guidance has been provided to the Department's Home Storage Vehicle drivers. Specifically, the payroll section, responsible for reporting imputed income, will receive a copy of each quarterly Take Home Vehicle mileage report to verify that submitted imputed income forms and the mileage reported on the quarterly report are the same. If the forms do not match, the drivers will have to correct before further processing.

### II. Commuter Trips Calculation Method

Management has directed all Home Storage Vehicle drivers, Payroll section, and the Home Storage Vehicle monitor to implement the new calculation method effective immediately. Management is currently in discussions to determine appropriate corrective actions if any are required in conjunction with past reporting.

### III. Non-Owned Vehicle Insurance Rider

Management has instructed the Home Storage Vehicle monitor to ensure compliance of the non-owned insurance rider requirement during both initial request for a Home Storage vehicle and the annual driver qualification reviews. In addition, the drivers have been instructed to make sure that all submitted insurance documents clearly state non-owned insurance rider coverage.

*Views of Responsible  
Officials*

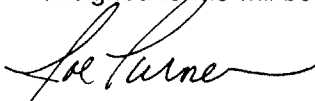


# EXHIBIT I

Page 2

## IV. Quarterly Take Home Vehicle Reports

Department Take Home Vehicle Report forms have been redesigned to include a field to identify the quarter being reported and a field for supervisory signature approval and date (see attached revised form). Management has also instructed all Home Storage Vehicle drivers that these forms must be signed by both the driver and the supervisor. All unsigned forms will be returned to the driver before further processing.



Joe Turner, Director  
Parks and Recreation Department

Cy: Cheryl D. Johnson  
Richard Martinez  
Scott Haiflich  
Michael Estes

*Views of Responsible  
Officials*

# EXHIBIT I

## QUARTERLY TAKE HOME VEHICLE REPORT FOR THE QUARTER ENDING \_\_\_\_\_

### EMPLOYEE

NAME: LAST \_\_\_\_\_ FIRST \_\_\_\_\_ MI \_\_\_\_\_

HOME PHONE #: \_\_\_\_\_ OFFICE #: \_\_\_\_\_

EMPLOYEE NUMBER: \_\_\_\_\_ DIVISION: \_\_\_\_\_

JOB CLASSIFICATION: \_\_\_\_\_ PAY GRADE \_\_\_\_\_ ASSIGN. ORG.: \_\_\_\_\_

HOME ADDRESS: \_\_\_\_\_ CITY \_\_\_\_\_ ZIP \_\_\_\_\_

INSURANCE POLICY EXPIRATION DATE: \_\_\_\_\_ TDL#: \_\_\_\_\_

### VEHICLE

VEHICLE SHOP NUMBER: \_\_\_\_\_ MAKE/MODEL: \_\_\_\_\_

VEHICLE IDENTIFICATION NUMBER: \_\_\_\_\_ YEAR MODEL: \_\_\_\_\_

LICENSE PLATE NUMBER: \_\_\_\_\_ CURRENT MILEAGE READING: \_\_\_\_\_

MILEAGE FROM LAST REPORT: \_\_\_\_\_

### HOME VEHICLE USAGE

#### HOME-OFFICE

HOME STORAGE / ONE-WAY DISTANCE: \_\_\_\_\_ HOME-OFFICE TRIPS PER QUARTER: \_\_\_\_\_

DAYS DRIVEN IN QUARTER: \_\_\_\_\_ VACATION DAYS: \_\_\_\_\_ SICK DAYS: \_\_\_\_\_ OTHER: \_\_\_\_\_

EMERGENCY TRIP PER QUARTER IS DEFINED AS THE USE OF A TAKE HOME VEHICLE TO  
RESPOND TO AN EMERGENCY CALL FOR SERVICE AT A FACILITY OUTSIDE OF YOUR NORMAL  
WORK HOURS.

NUMBER OF EMERGENCY TRIPS PER QUARTER: \_\_\_\_\_

### DATES AND TIMES OF DAY

1) \_\_\_\_\_ / \_\_\_\_\_ 6) \_\_\_\_\_ / \_\_\_\_\_

2) \_\_\_\_\_ / \_\_\_\_\_ 7) \_\_\_\_\_ / \_\_\_\_\_

3) \_\_\_\_\_ / \_\_\_\_\_ 8) \_\_\_\_\_ / \_\_\_\_\_

4) \_\_\_\_\_ / \_\_\_\_\_ 9) \_\_\_\_\_ / \_\_\_\_\_

5) \_\_\_\_\_ / \_\_\_\_\_ 10) \_\_\_\_\_ / \_\_\_\_\_

EMPLOYEE SIGNATURE \_\_\_\_\_ DATE: \_\_\_\_\_

SUPERVISOR SIGNATURE \_\_\_\_\_ DATE: \_\_\_\_\_

*Views of Responsible  
Officials*