



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**06-276 – COLORADO SPRINGS UTILITIES'
TAKE HOME VEHICLES AUDIT**

PUBLIC REPORT

SEPTEMBER 14, 2007

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City of Colorado Springs



Office of the City Auditor

Public Report

Date: September 14, 2007

To: Honorable Mayor and Members of City Council

Re: 06-276 – Colorado Springs Utilities' Take Home Vehicle Audit

We have completed an audit of the Take Home Vehicle (THV) process at Colorado Springs Utilities (Springs Utilities).

The purpose of this audit was to evaluate Springs Utilities' policies and procedures related to THV. We attempted to determine whether those policies and procedures were being followed in a consistent manner throughout Springs Utilities. We reviewed IRS rules and evaluated proper reporting of taxable income for approved commuting in a THV. Our fieldwork encompassed the period of October 1, 2005 to September 30, 2006.

We concluded the policies and procedures related to THV were not being followed in a consistent manner. We also concluded the policies and procedures were not written in a manner to provide reasonable assurance the IRS rules and regulations governing the reporting of taxable income would be met.

The attached audit report contains our findings.

As always, feel free to contact me if you have any questions.

Sincerely,

Jeff Litchfield
City Auditor

Cc: Jerry Forte, Utilities Executive Director
Edward Easterlin, Planning and Finance Officer
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List of Abbreviations used in this Report

IRC	Internal Revenue Code
IRS	Internal Revenue Service
QBD	Quality By Design, Springs Utilities' policy and procedure documents
THV	Take-Home Vehicles
VUR	Vehicle Usage Request

Introduction

AUTHORIZATION

We performed an audit of Colorado Springs Utilities' (Springs Utilities') Take-Home Vehicles (THV). We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705 and 706, and Part 709 (B) and (C) of the Code, which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department or group managers and by the City Manager, Springs Utilities' Executive Director and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

The City Auditor shall make periodic reports to Council which shall include the following:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

Introduction

ORGANIZATIONAL PLACEMENT

The City of Colorado Springs Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The audited entity in this audit was Springs Utilities, under the direction of their Chief Executive Officer, who is also a City Council Appointee.

SCOPE AND METHODOLOGY

The purpose of this audit was to evaluate Springs Utilities' policies and procedures related to THV. We attempted to determine whether those policies and procedures were being followed in a consistent manner throughout Springs Utilities. We reviewed IRS rules and evaluated proper reporting of taxable income for approved commuting in a THV. Our fieldwork encompassed the period of October 1, 2005 to September 30, 2006.

We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. Our audit included such tests of records and other supporting documentation as we deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

The mission of Springs Utilities is to provide safe, reliable, competitively-priced electric, natural gas, water and wastewater services to the citizen owners and customers of Springs Utilities. City Fleet Management purchased and maintained vehicles for Springs Utilities. However, until recently, each individual department independently tracked the assignment of its THV.

During our audit fieldwork, Springs Utilities' Fleet Coordinator was in the process of compiling a centralized list of the organization's total THV. We obtained the lists assembled thus far by the Fleet Coordinator in order to perform testing and to evaluate compliance with policies and procedures. Efforts to bring the responsibility of tracking THV under one function were in process. In 2006, the responsibility for maintaining a list of THV was given to Energy Support Services, particularly the Fleet Coordinator. However, Energy Support Services had not completed the assembly of a comprehensive organization THV list. The process of transferring responsibilities was not completed at the end of this audit.

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OVERALL CONCLUSIONS

We concluded the policies and procedures related to THV were not being followed in a consistent manner. We also concluded the policies and procedures were not written in a manner to provide reasonable assurance IRS rules and regulations governing the reporting of taxable income would be met.

For the Future

We plan a follow-up audit for 2008. The purpose of the follow-up audit is to review actions taken by Springs Utilities in response to the findings listed in this report and to complete tests we were not able to complete in this audit because of the unavailability of data. The follow-up will cover the period January 1 to March 31, 2008.

For the findings that follow, we have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.

Findings, Recommendations and Responses

1. THV policies and procedures were not current, always followed, consistent, and did not include adequate definitions.

Policies and procedures must be relevant in order to be effective and assist in meeting the organization's objectives. Policies and procedures that do not sufficiently document processes can create varying degrees of inconsistency within the organization. Accountability issues may also arise when detailed standards for conduct are inaccurate or outdated.

Springs Utilities' Administrative Regulation 4.2, "Usage of Utilities Vehicles and Vehicle Allowances," was rescinded on December 27, 2005 and was replaced by Quality By Design (QBD) 11422, "Utilities Vehicles & Vehicle Allowances Regulation." At that time, the QBD was reviewed and updated. Since that time, functions have been assigned to other departments and procedures have changed.

Managers and THV operators have included their own interpretations or added exceptions for several areas of the QBD's. These interpretations or exceptions were not documented in the written policies. We noted several issues created by noncompliance and/or misinterpretations.

We noted the following policies were not current:

- Vehicle Usage Request (VUR) forms were not consistently completed by Springs Utilities per QBD 11422. VUR forms were not being completed by most departments. Springs Utilities' Fleet Coordinator stated that these forms were not used and alternative documentation was being reviewed.
- References in QBD 11422 regarding approval policies and required procedures performed by the Fleet Management Division as well as the Fleet Manager did not represent current procedures performed.

We noted the following policy was not being followed:

- Planning & Finance Division did not provide forms to THV users as stated in QBD 11422, Section 4.3.5.

We noted the following policies were not consistent:

- QBD 11422 stated that VUR should be completed and submitted to the Fleet Manager.
- QBD 11422 stated that car pools must have a minimum of three (3) passengers. IRS Publication 15-B, stated that each vehicle used as a commuter vehicle must seat at least six (6) adults with employees occupying at least one-half of the vehicle's seats not including the driver's.
- QBD 11422 Section 4.1.1 stated, "Utilities vehicles shall be used only for official Utilities business" and Section 4.3.5 stated, "Utilities vehicles may be taken home on an ongoing basis . . ." These two statements are in conflict with each other. Additionally, QBD 09720 stated that its purpose was to outline the procedure for reporting company vehicle usage for personal use. This statement is also in conflict with Section 4.1.1. of QBD 11422.

Findings, Recommendations and Responses

We noted the following policies did not include adequate definitions:

- QBD 09720 Sections 2.0 and 6.1 specified that “the process applies to the reporting of personal use of Colorado Springs Utilities vehicles by executive level employees.” Thus, the policy implied that employees at lower levels were not to report personal use of Springs Utilities’ vehicles. The wording in the QBD did not clearly explain that employees at all levels who meet certain IRS criteria are required to report personal use for commuting.
- The phrase “vehicles taken home on an on-going basis” in QBD 11422 Section 4.3.5 was not adequately defined. The use of vague phrases resulted in department managers interpreting the meaning of this policy in different ways and creating inconsistent applications to other regulations and several noncompliance issues.
- Personal use reportable in QBD 09720 was not adequately defined in the QBD's to clearly communicate that such use was acceptable when commuting in a THV approved by management. According to replies to inquiries, some operators and managers were under the impression that personal use did not include commuting to work in a Springs Utilities’ vehicle. Therefore, operators of THV did not apply QBD 09720 to their personal use of commuting.

Auditor’s Recommendation:

We recommend:

- 1.1 QBD 11422 be updated to establish current, uniform policies and procedures for THV.

Springs Utilities’ Response:

Springs Utilities agrees with the Office of the City Auditor’s recommendation and will evaluate the Utilities Vehicles and Vehicle Allowances Regulation QBD #11422 and the Payroll Vehicle Usage and Allowance Report QBD # 09720 to establish current uniform policies and procedures for take home vehicles. These revised policies and procedures will clearly define expectations to help ensure that forms are being consistently and accurately used to assign vehicles, track usage, and ensure appropriate use. Fleet Coordination, IT, HR, Payroll, Business Solutions and the Officer Team are working collectively to ensure a comprehensive program emerges as a result of this review. This will be completed by January 01, 2008.

- 1.2 The policies contain centralized procedures that include meaningful authorization documentation, utilization evaluations, and tracking procedures.

Springs Utilities’ Response:

Springs Utilities agrees with the Office of the City Auditor’s recommendation. The policies and procedures will be updated as addressed in 1.1. In addition, the Utility’s’ Fleet Coordinator will be established as the central point of contact and will create and maintain the necessary forms and reports to ensure appropriate documentation is maintained. This

Findings, Recommendations and Responses

will include ensuring proper authorization, vehicle assignment and usage, and periodic manager evaluations. This will be completed by January 01, 2008.

- 1.3 An organizational approval form for THV is created. This form should to be completed and submitted to proper authorities for review and evaluation.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation and will create an organizational approval form which will be developed during the take home vehicle process update. The form will be submitted by the Fleet Coordinator to proper authorities for review and evaluation as decided by the policy update. This will be completed by January 01, 2008.

- 1.4 The requirements for car pools be modified to match IRS guidelines or, if car pools are not being used, remove their reference from the policy.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor recommendation and since car pools are not used, Springs Utilities will remove the car pool vehicle references from Section 4.3.4 and 4.3.7 of the Utilities Vehicles and Vehicle Allowances Regulation QBD #11422. This will be completed by January 01, 2008.

- 1.5 The definition of personal use in QBD 09720 be included to clarify that operators of THV must report personal use for commuting as taxable income unless specifically excluded by the Internal Revenue Code (IRC) and Springs Utilities communicate the IRS regulations to all operators of THV to prevent noncompliance.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation. The statements in the Payroll Vehicle Usage and Allowance Report QBD # 09720 will be updated to clarify appropriate reporting for personal use of take home vehicles in accordance with the Internal Revenue Code. Springs Utilities complies with all IRS rules for reporting and taxation of income. The QBD # 09720 will reference IRS Publication 15-B and include a statement that references tax regulations in the policy that are for informational purposes only and are not intended to provide tax advice to employees and that employees are encouraged to consult with their tax advisor. This will be completed by January 01, 2008.

- 1.6 That QBD 11422 be revised to clearly state that there are exceptions to prohibiting personal use of a company vehicle such as commuting when properly approved.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation and will analyze and identify exceptions to the policy and update the Utilities Vehicles and Vehicle Allowances Regulation QBD #11422, Payroll Vehicle Usage and Allowance Report QBD #

Findings, Recommendations and Responses

09720, and the Personnel Policies Manual QBD # 00242 accordingly. This will be completed by January 01, 2008.

- 1.7 The phrase “on-going basis” in QBD 11422 Section 4.3.5 be defined adequately to avoid misinterpretation. We also recommend that Springs Utilities eliminate the word “executive” in Sections 2.0 and 6.1 in QBD 9720.

Springs Utilities’ Response:

Springs Utilities agrees with the Office of the City Auditor’s recommendation and will remove the phrase “ongoing” in the Utilities Vehicles and Vehicle Allowances Regulation QBD #11422 section 4.3.5. Removing the reference to “ongoing” will diminish the chance of misinterpreting of the policy. In addition, Springs Utilities will remove the reference to “executive” in Sections 2.0 and 6.1 of the Payroll Vehicle Usage and Allowance Report QBD # 09720. These actions will be completed by January 01, 2008.

Findings, Recommendations and Responses

2. Vehicle Usage Reports did not reflect IRS reporting regulations.

The Vehicle Usage Report used by employees to report their quarterly personal use of the THV contained columns on the report for total monthly trips. The column headings contained the word “trips” even though Springs Utilities’ Payroll treated the total as round-trips. Payroll multiplied the number of trips by \$3 to calculate the quarterly taxable income for each of the employees on the report. The Vehicle Usage Report might mislead employees by stating “trips” instead of “round-trips.” In addition, policies did not fully explain the IRS regulations.

IRS Publication 15-B stated the Commuting Rule calculates the THV benefit by multiplying each one-way commute between home and work by \$1.50 or round-trip commute by \$3. The total number of round trips made each day should be reported. The policy does not explain that multiple round-trip commutes taken daily must be reported.

In addition, Publication 15-B also stated the Commuting Rule cannot be used for a control employee, who is defined as a government employee whose compensation is equal to or exceeds Federal Government Executive Level V (currently \$136,200). Employees who cannot use the Commuting Rule might have to use the Lease Value Rule.

Review of samples of reports indicated that employees reported one round trip for each day they took a vehicle home. It was not clear that the operators understood that multiple commutes a day to return home for lunch or for other reasons should be reported as additional round trips. Lack of understanding on how to properly report commuting benefits could cause underreporting of taxable income to the IRS and noncompliance of the tax code.

Auditor’s Recommendation:

2. We recommend the Vehicle Usage Report be revised to require employees to indicate the actual number of daily one-way commutes between home and work or change the column heading to “round-trips.” We also recommend the policy be restated so that employees understand they are to report the total number of commutes made daily.

Springs Utilities’ Response:

Springs Utilities agrees with the Office of the City Auditor’s recommendation and the Vehicle Usage Report contained in the Payroll Vehicle Usage and Allowance Report QBD # 09720 will be revised to require employees to indicate the actual number of daily one-way commutes from work to home and visa versa. The policy statements will be restated to direct employees to report the total number of commutes made daily. This item will be completed by January 01, 2008.

Findings, Recommendations and Responses

3. Internal controls relating to THV were limited and inadequate.

After interviewing employees and reviewing responses to questionnaires, we determined that internal controls for prevention and detection of abuse were not adequate. This inadequacy was due to lack of organizational guidelines for authorization, tracking, reporting, and documentation. Although the effort to create a centralized area of responsibility for these functions was in progress, controls were not in place at the time of our audit.

- Springs Utilities did not have centralized and standardized policies and procedures for evaluating and determining the necessity for THV assignments.
- Springs Utilities' policies for THV were not followed consistently and did not adequately define criteria for assigning and evaluating THV.
- Springs Utilities did not have a comprehensive list of all THV completed at the end of this audit. Assembling lists from departments was in progress. However, several lists submitted to the Fleet Coordinator did not indicate the categories of the THV per QBD 11422 Section 4.3.4 and Section 4.3.6.

QBD 11422 stated that the Construction and Maintenance Department Support Service Section oversees Springs Utilities' fleet and serves as a central point of coordination with City fleet. It would be difficult to have central coordination without a comprehensive list.

- A completed list of THV and Vehicle Usage Requests Forms were not submitted to the CEO or upper management for review and evaluation.

QBD 11422 Section 4.3.6 stated vehicles lists and VUR forms may be subject to CEO review. Top-level reviews help ensure that management directives are carried out.

- Controls to prevent and detect misuse of THV were limited and inadequate. Procedures for addressing misuse were not included in QBD 11422.

Policies and procedures that do not sufficiently document processes can create varying degrees of inconsistency within the organization. Accountability issues may also arise when no detailed standard is given with which to hold an employee accountable.

- Managerial authorization procedures for THV assignments and documentation were not consistent among departments. Written policies were not clear regarding authorization procedures.

Periodic review and oversight is an important control to be used by authorizing personnel in order to safeguard assets. The "segregation of duties" internal control requires that assets are protected by separating the recording, access, and authorization duties. Without proper oversight and evaluation performed by those employees who do not have access or recording duties, internal controls were not reliable.

We also noted four of seven vehicle lists did not categorize department vehicles. Therefore, it was difficult to analyze and evaluate the justification for the assignment of THV.

Findings, Recommendations and Responses

Auditor's Recommendation:

We recommend:

- 3.1 Springs Utilities review existing policies and establish well-defined procedures for the entire organization including precise criteria for evaluating assignments of THV.

Springs Utilities' Response:

See 1.1

- 3.2 Request forms for THV be completed annually for each department by the department manager and submitted to the Fleet Coordinator for evaluation. At this time, Springs Utilities should re-evaluate each THV on a case-by-case basis using the new organizational criteria.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation and as mentioned in 1.2 will create an approval form. The form will be submitted to proper authorities for review and evaluation as decided by the policy update discussed in 1.1. This will be completed by January 01, 2008.

- 3.3 Springs Utilities review QBD 11422 and establish improved approval procedures and consistent documentation processes for assigning THV.

Springs Utilities' Response:

See 1.1 and 1.2

- 3.4 Springs Utilities' Fleet Management continues to compile an updated list of THV including authorized operators, vehicle categories, authorizing managers, type of vehicles, and purposes required.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation and in addition to the actions that will be put in place as addressed in the response to 1.2. Springs Utilities will also maintain a complete list of all vehicles, the type of vehicle, vehicle modifications, vehicle category, authorizing operators, authorizing managers, and purpose required. This will be completed by January 01, 2008.

- 3.5 Springs Utilities' CEO and/or Officers review the departmental THV lists to provide oversight at a top managerial level.

Findings, Recommendations and Responses

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation and as stated in 1.1 and 1.2 and will identify in the policies and procedures the appropriate oversight required by upper management. This will be completed by January 01, 2008.

- 3.6 Springs Utilities review alternative controls to be put in place that would emphasize preventing misuse. One possible measure would be to have operators of vehicles sign that they have read and understand written policies.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation and as stated in 1.1 and 1.2 will identify the policies and procedures that need to be updated. Additionally, a form will be developed that will require the vehicle operator to read and sign prior to the issuance of a vehicle. The form will clearly state that the vehicle operator has read and understands the policies and procedures governing vehicle usage and that they agree to abide by the policy. This will be completed by January 01, 2008.

- 3.7 That QBD 11422 be reviewed and updated to include definitions of type of personal use allowed and not allowed.

Springs Utilities' Response

See 1.1.

- 3.8 Springs Utilities' Fleet Coordinator establishes a uniformed THV form that mandates listing each vehicle by the category of the vehicles per Section 4.3.4.

Springs Utilities' Response

See 3.4.

Findings, Recommendations and Responses

4. Operators of THV live outside Springs Utilities' service area.

Springs Utilities' QBD 11422 Section 4.3.3 stated that "No Utilities vehicle shall be taken home by any Utilities employee who resides outside Colorado Springs Utilities' general service area. Exceptions to this policy must follow Service Territory Requirements set forth in the Utilities Personnel Policies Manual. See QBD document 00242."

QBD 00242 Section 5.6 stated, "Officers/General Managers may designate certain positions in which employees are required to take home Colorado Springs Utilities' vehicles daily. Employees in these positions are required to reside and show proof of residency within the Colorado Springs Utilities' service territory." In addition, it stated "employees who apply and accept one of these designated positions, will have a grace period of 5 (five) months to establish their residency within the Colorado Springs Utilities' service territory. Failure to satisfy this requirement may result in discharge." Approval by managers for additional exceptions was not stated in these policies.

During testing, we noted six operators of various departments, who take home company vehicles, lived outside Springs Utilities' service area. Another six operators lived outside the service area of the department they serviced. Department managers suggested that there was an exception to written policies when an employee did not have a THV on an "on-going basis" and when managerial approval was given. However, we did not find written policy that supported this.

The objectives of quick emergency response and keeping costs low were not obtained by allowing exceptions to these regulations. Because some employees were not always assigned the same vehicle, costs relating to noncompliance of the service territory policy could not be accurately computed.

Auditor's Recommendation:

4. We recommend that Springs Utilities review current practices for allowing exceptions to Springs Utilities' written policies and determine whether exceptions should be allowed. We believe the objectives of the organization to service the community and mitigate costs would not be served if exceptions were made at the discretion of department managers. Therefore, we recommend that departments should bring their current practices under compliance with the Service Territory Policy.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation and will review the current practices and determine if exceptions to the policy should exist or whether vehicle assignment needs to be reassessed. Changes will be documented in the Utilities Vehicles and Vehicle Allowances Regulation QBD #11422, the Personnel Policies Manual QBD # 00242, and the Vehicle Usage Report QBD # 09720 to be completed by January 01, 2008.

Findings, Recommendations and Responses

5. Personal use of THV not properly reported to IRS.

We identified six employees who were assigned Springs Utilities' THV that were not excluded under the working conditions benefit definition in IRC. These employees did not report personal use for commuting as taxable income. Also, there were indications that several other employees operating THV did not report taxable income to Payroll. The vehicles were not classified as nonpersonal-use vehicles.

Per IRS 15-B, Section 1, a fringe benefit is a form of pay for the performance of services. Any fringe benefit that employers provide their employees is taxable and must be included in the recipients' pay unless the law specifically excludes it. Section 2 describes the exclusions in which usage does not have to be reported. However, only one exclusion, working conditions benefit, applied to Springs Utilities' THV. Springs Utilities' vehicles meet only one item named in this exclusion called Qualified Nonpersonal-use Vehicles. In order to meet the exclusions requirements, significant modification is necessary to trucks and vans.

One employee who operated a THV reported personal use on an annual basis. QBD 09720 Section 6.1 stated that each employee shall submit to the Payroll Department a completed Employee Vehicle Use Summary report every quarter. According to the employee, management established a verbal policy differing from the written policy. Creating verbal instruction, instead of adhering to written policies, created noncompliance to the organization's standards. This example of fundamental controls being misunderstood lead to the assessment that written policies and procedures cannot be relied upon as functioning controls.

Auditor's Recommendation:

We recommend Springs Utilities:

- 5.1 Human Resources review the Internal Revenue Service Publications and communicate the applicable information from the regulations to department managers.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation. Internal Revenue Service Publications will be reviewed and as indicated in the response to 1.5, Springs Utilities will revise the definition of personal use in the Payroll Vehicle Usage and Allowance Report QBD # 09720 to indicate that employees are required to report the personal use of take home vehicles for federal income tax purposes unless specifically excluded by the Internal Revenue Code. Once the QBD 09720 is revised and approved, communication regarding the responsibility of the employee and the supervisor to report personal usage of take home vehicles or other applicable information will be distributed to management. This will be completed by January 01, 2008.

- 5.2 Payroll Department review additional controls to monitor compliance with IRS. For example, Payroll could maintain a separate THV list and use that list to verify proper reporting. The list should be broken down by those eligible to use the Commuting Rule and those who use the Lease Value Rule.

Findings, Recommendations and Responses

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation. The Payroll Department will review additional controls to monitor compliance with the IRS and implement any changes or new controls by January 01, 2008.

- 5.3 Review the THV by type and modifications in order to verify compliance with IRS.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor recommendation. See response to 3.4. In addition, Springs Utilities will verify compliance regarding the personal use of take home vehicles for federal income tax purposes unless specifically excluded by the Internal Revenue Code. The Payroll Vehicle Usage and Allowance Report QBD # 09720, will reference IRS Publication 15-B and include a statement that any reference to tax regulations in the policy is for informational purposes only and is not intended to provide tax advice to employees and that employees are encouraged to consult with their tax advisor. This will be completed by January 01, 2008.

- 5.4 Consider whether employees should report quarterly, semi-annually, or annually.

Springs Utilities' Response:

Springs Utilities agrees with the Office of the City Auditor's recommendation. The employee will report vehicle mileage per the requirements set forth in the Utilities Vehicles and Vehicle Allowances Regulation QBD #11422, the Personnel Policies Manual QBD # 00242, and the Vehicle Usage Report QBD # 09720 which will be updated accordingly. This will be completed by January 01, 2008.

- 5.5 Communicate the importance of complying with written policies.

Springs Utilities' Response:

See 3.6.

- 5.6 In addition, adding the definition of "personal use" to QBD 09720, as recommended in Finding 1, should help in determining the value of taxable income to be reported to the IRS.

Springs Utilities' Response:

See 1.5.