

County of San Bernardino

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

Special Districts Department: Vehicle Follow Up Audit



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SUBJECT: SPECIAL DISTRICTS DEPARTMENT VEHICLE FOLLOW UP 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 a follow-up audit of the Department of Special Districts' vehicles. The primary objective of the audit was to determine if recommendations for the findings in the Special Districts Department Vehicle Audit report dated November 29, 2016 have been implemented. 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 have provided a status of the audit findings identified in the original audit report issued on November 29, 2016. Two of the recommendations have been implemented and one has been partially implemented.

We sent a draft report to the Department on January 5, 2018. The Department's responses to the current status of our recommendations are included in this report.

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

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
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By 

Denise Mejico

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Special Districts Department: Vehicle Follow Up Audit

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Scope and Objective

Our audit examined the Department's vehicles for the period of December 1, 2016 through October 23, 2017.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Vehicle Audit*, issued on November 29, 2016.

Methodology

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

- Interviews of Special Districts Department personnel.
- Review of 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.
- Review of Department's policies and procedures.



Prior 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.

Current Status: Implemented

Employees commuting days used to calculate the taxable fringe benefits were accurately reported to Central Payroll. Management has educated Department personnel on County Standard Practices to ensure they understand their responsibility for properly recording all vehicle usage activity.

Prior 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.

Current Status: Implemented

The Department has trained employees regarding policies and procedures on vehicle usage. The Department maintains a listing of all on-call employees and a schedule showing when employees are on-call. Management is reviewing the on-call schedule and updating it to show last-minute schedule changes.

Prior 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.

Current Status: Partially Implemented

- The Department has adopted comprehensive policies and procedures that include detailed guidelines regarding the assignment, daily usage, and monitoring of County vehicles.
- The Department has instructed personnel on the policies and procedures for the appropriate use of County vehicles and have formally documented this instruction.
- While the Department requires all employees to use a uniform vehicle tracking log with beginning mileage, ending mileage is not recorded on the log. The employees sign and date these logs and submit them to management monthly.
- While the Department has implemented monitoring procedures that require management to review the monthly vehicle usage reports and the vehicle's GPS activity, management does not document evidence of their review by signing and dating monthly reports.
- The Department has established a centralized authority for approving all Department take-home vehicle assignments. The Department maintains the documented justifications for all take-home vehicle assignments.
- The Department has established a procedure to perform annual assessments of the justifications for take-home vehicle assignments. However, the Department has not conducted a review as the justifications are less than a year old.
- The Department has established and implemented a monitoring control procedure for the Department's fuel usage. The procedure includes monthly reviews of fuel usage so that any anomalies identified can be immediately investigated.



Management's Response:

Management has adopted an internal Vehicle Policy that has been provided to ATC as evidence of establishment. Further, employees have attended a training regarding the establishment of the new Vehicle Policy, and acknowledged the training through signature. Additionally, the Department has created a "master vehicle log" encompassing corrections to the audit findings, specifically addressing: take home vehicle use (reducing the number of take home vehicles by 80%); monitoring and documenting GPS tracking/use of vehicles; monitoring and documenting fuel use; adding an additional "ending mileage" column to the review document and reviewing on a monthly basis; adding "manager's signature" to the monthly review process; and evaluating take home vehicles and updating master lists every six months versus the customary one year. Management appreciates the assistance of ATC staff in the implementation and correction of deficiencies associated with vehicle use.

Auditor's Response:

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