

# INTERNAL AUDIT REPORT

2018-04

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Municipal Take-Home Vehicles

Municipal Manager

July 5, 2018

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

July 5, 2018

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2018-04, Municipal Take-Home Vehicles, Municipal Manager**. A brief summary of the report is presented below.

In accordance with the 2018 Audit Plan, we have completed an audit of Municipal Take-Home Vehicles. The objective of this audit was to determine if there were sufficient controls over Municipal take-home vehicles. Specifically, we reviewed approvals of all Municipal take-home vehicles, monthly usage reports, emergency/call-out records, and the Central Payroll Office's reporting of take-home vehicles.

Our audit revealed that internal controls over take-home vehicles could be improved. Specifically, take-home vehicle monthly usage reports were not always submitted and reported to the Central Payroll Office and employees with take-home vehicles were not always approved as required by Policy and Procedure 76-3. In addition, the Municipality of Anchorage may have more take-home vehicles than needed to meet its operational needs and the Office of Management and Budget needs to enhance its process to receive and maintain a complete master file list of vehicle authorization letters, and review, analyze and maintain copies of monthly reports and letters of justification. Finally, three Anchorage Water and Wastewater Utility employees living outside of Municipal boundaries were assigned take-home vehicles, and Policy and Procedure 76-3 for Municipal take-home vehicles could be improved.

There were six findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA  
Director, Internal Audit



# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

July 5, 2018

**Internal Audit Report 2018-04**  
**Municipal Take-Home Vehicles**  
**Municipal Manager**

**Introduction.** The Municipality of Anchorage (Municipality) maintains a fleet of motor vehicles to help support Municipal operations. In some circumstances, employees are assigned a Municipality-owned take-home vehicle. The Municipality established Policy and Procedure (P&P) 76-3, *Municipal Take-Home Vehicles*, for assigning and controlling the use of Municipal take-home vehicles, computing lease value, reporting imputed income, and for the withholding of social security taxes and federal income tax. Policy and Procedure 76-3 assigns vehicles under two categories: Management vehicles assigned to Municipal executives approved by the Mayor, and Emergency Response/Specialized vehicles assigned to employees, who have continuous primary responsibility for immediate response (call-out) in case of an emergency, approved by the Municipal Manager. Only Municipal employees who reside within the boundaries of the Municipality are eligible for a take-home vehicle assignment, unless an exception is granted. Employees receive a fringe benefit of \$3 for each commuting day according to Internal Revenue Service (IRS) guidelines for take-home vehicles. The Assembly, Anchorage Police Department, and Anchorage Fire Department are exempt from the requirements of P&P 76-3.

As of February 2018, the Municipality had a total of 48 take-home vehicles that were covered by P&P 76-3, as shown in the table below.

**Number of Take-Home Vehicles by Department  
As of February 2018**

	<b>Municipal Light and Power (ML&amp;P)</b>	<b>Anchorage Water and Wastewater Utility (AWWU)</b>	<b>Maintenance and Operations* (M&amp;O)</b>	<b>Merrill Field</b>	<b>Port of Alaska (Port)</b>	<b>Public Transportation</b>	<b>Totals</b>
Number of Vehicles	20	13	11	1	2	1	48
Percent of Total Vehicles	42%	27%	23%	2%	4%	2%	100%

\*Maintenance and Operations includes two vehicles used by Eagle River Street Maintenance.

Source: Auditor analysis of Municipal Manager, Office of Management and Budget (OMB), and departments' records.

**Objective and Scope.** The objective of this audit was to determine if there were sufficient controls over Municipal take-home vehicles. Specifically, we reviewed approvals of all Municipal take-home vehicles, monthly usage reports, emergency/call-out records, and the Central Payroll Office's (Payroll) reporting of take-home vehicles.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. 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. The audit was performed during the period of February through April 2018.

**Overall Evaluation.** Internal controls over take-home vehicles could be improved. Specifically, take-home vehicle monthly usage reports were not always submitted and reported to Payroll as required and employees with take-home vehicles were not always approved as required by P&P 76-3. In addition, the Municipality may have more take-home vehicles than needed to meet its operational needs and OMB needs to enhance its process to receive and maintain a complete master file list of vehicle authorization letters, and review, analyze and maintain copies of monthly reports and letters

of justification. Finally, three AWWU employees living outside of Municipal boundaries were assigned take-home vehicles, and P&P 76-3 for Municipal take-home vehicles could be improved.

## FINDINGS AND RECOMMENDATIONS

### 1. Monthly Vehicle Usage Reports Not Always Submitted to Payroll.

- a. **Finding.** Take-home vehicle monthly usage reports were not always submitted and reported to Payroll as required by P&P 76-3. Policy and Procedure 76-3.2.d states that “Those Municipal agencies with take-home vehicles shall compile monthly usage on a form . . . The completed form shall be sent to the Payroll Section, with a copy to Management Analysis in OMB . . . .” According to Payroll staff, they did not track who submitted a take-home vehicle monthly usage report. Specifically, our audit revealed the following:
- *Anchorage Water and Wastewater Utility* – AWWU staff did not submit to Payroll the April and July, 2017 monthly usage reports for any of their employees with take-home vehicles. In addition, AWWU staff did not submit monthly vehicle usage reports in 2017 for any of its employees who had rotating on-call duties and used take-home vehicles to support these on-call duties.
  - *Municipal Light and Power* – ML&P staff did not submit to Payroll some of the 2017 monthly usage reports for two employees with take-home vehicles. One employee had four monthly usage reports missing and another had one monthly usage report missing.
  - *Merrill Field Airport* – Merrill Field Airport staff did not submit to Payroll the February 2017 monthly usage report for an employee with a take-home vehicle.

- *Maintenance and Operations* – M&O staff did not submit to Payroll the May 2017 monthly usage report for an employee with a take-home vehicle.

As a result, the fringe benefit employees received from the take-home vehicles was not properly reported to IRS for payroll purposes. According to IRS Publication 15b, any fringe benefit provided by an employer is taxable and must be included in the employee's pay unless the law specifically excludes it. If the recipient of a taxable fringe benefit is an employee, the benefit is subject to employment taxes.

- b. **Recommendation.** The Payroll Director should ensure that take-home vehicle monthly usage reports are submitted to Payroll as required by P&P 76-3.
- c. **Management Comments.** Management concurred and stated, "Central Payroll has met as a team and come up with a new process to ensure we receive the monthly take-home vehicle usage reports from the below departments:

- "1. AWWU – Anchorage Water and Wastewater Utility
- "2. ML&P – Municipal Light and Power
- "3. Merrill Field Airport
- "4. Maintenance and Operations

"We have identified two employees to work these reports when they come in, and two others to review the entries. Once they have reviewed them, they will be notifying the Central Payroll Director that Central Payroll has received them and they have been processed for these departments. We are currently working with each of the above departments to find out when they will be able to guarantee these reports to be sent by each month and if the current deadline of 10 days prior to month-end needs to change. Once we work through all those details, we will set a date each month that the reports must be received by for processing. We will also set up sending a reminder e-mail to any department we have not received the reports from by the date agreed upon."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Take-Home Vehicles Not Always Approved.**

- a. **Finding.** Employees with take-home vehicles were not always approved as required by P&P 76-3. Specifically, we were not able to find approvals for nine AWWU employees who had rotating on-call duties and were assigned to take-home vehicles in 2017, but were approved in 2018. In addition, one ML&P employee had a take-home vehicle in January 2018, but had not received authorization for the take-home vehicle. Policy and Procedure 76-3.2.a requires that the assignment of take-home vehicles be in writing and authorized by the Mayor or Municipal Manager.
- b. **Recommendation.** The Municipal Manager should remind Department Directors that approval is required for Municipal take-home vehicles as required by P&P 76-3 and ask Department Directors to discontinue the use of take-home vehicles in their departments without proper approval.
- c. **Management Comments.** Management concurred and stated, “Agreed. Directors were instructed as recommended by email from the Municipal Manager on May 25, 2018.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Some Emergency Take-Home Vehicles May Not Be Justified.**

- a. **Finding.** The Municipality may have more take-home vehicles than needed to meet its operational needs. Specifically, we found some employees with take-home

vehicles did not have any call-outs in 2016 and/or 2017.<sup>1</sup> As a result, Municipal resources may have been inefficiently used and the Municipality may be exposed to unnecessary liability. The table below shows the number of employees with take-home vehicles and the number of employees who had no call-outs in 2016 and 2017.

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### Call-Outs in 2016 and 2017

<u>Department</u>	<u>Year</u>	<u>Number of Employees with a Take-Home Vehicle</u>	<u>Number of Employees with No Call-Outs</u>	<u>Number of Employees with 1-2 Call-Outs</u>	<u>Assignment Length</u>
ML&P <sup>a</sup>	2016	24	9	4	Permanent
	2017	25	9	5	Permanent
AWWU <sup>b,c</sup>	2016	10	3	1	Permanent
	2017	9	2	0	Permanent
M&O <sup>d</sup>	2016	6	2	1	Permanent
		5	2	1	May-October
	2017	6	2	1	Permanent
		5	3	1	May-October

<sup>a</sup> Five employees did not have a single call-out in 2016 and 2017.

<sup>b</sup> The two employees with no call-outs in 2017 also had no call-outs in 2016.

<sup>c</sup> Four vehicles were assigned to employees who had rotating on-call duties. These employees are not included in this table. On average, each of these employees were called out 17 times in 2016 and 16 times in 2017.

<sup>d</sup> The four employees with no call-outs in 2016 also had no call-outs in 2017.

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Source: Auditor analysis of call-out reports.

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Finally, some exempt employees at ML&P, AWWU, M&O, Merrill Field, and Public Transportation had take-home vehicles authorized and approved as emergency response vehicles by the Municipal Manager. We found that these vehicles were authorized to be taken home to allow employees to respond timely to emergencies

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<sup>1</sup>The two Port vehicles were assigned as management take-home vehicles and not assigned as emergency take-home vehicles. These vehicles were not taken home in 2017 and in 2018 at the time of our audit.



outside of normal working hours. However, we were unable to determine the usage or need based on call-out activity since call-out data for exempt employees did not exist.

- b. **Recommendation.** The OMB Director should review vehicle utilization and evaluate the need for assigning take-home vehicles.
- c. **Management Comments.** Management concurred and stated, “OMB will enhance its review and tracking of take-home vehicles to assist in evaluating the utilization and need for take-home vehicles.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Master List Maintenance and Reporting of Municipal Take-Home Vehicles Needs Improvement.**

- a. **Finding.** The Office of Management and Budget needs to enhance its process to receive and maintain a complete master file list of vehicle authorization letters, and review, analyze and maintain copies of monthly reports and letters of justification. For example, in 2017, OMB did not maintain monthly usage records for AWWU and the Port, and had partially maintained monthly usage records for M&O and Merrill Field Airport. Similarly, the Payroll Director may not be aware of all the Municipal employees who should be taxed for this take-home vehicle benefit. Policy and Procedure 76-3.6.e states that “The Management Analysis Officer in OMB shall: . . . (2) Maintain the master file of vehicle authorizations letters. (3) Review, analyze and maintain copies of monthly reports and letters of justification.” A similar finding was reported in Internal Audit Report 2008-6.

- b. **Recommendation.** The OMB Director should maintain a master list of vehicle authorization letters and ensure that monthly reports and justification letters are reviewed, analyzed and maintained as required by P&P 76-3.
- c. **Management Comments.** Management concurred and stated, “OMB will improve and make scheduled contact with the Municipal Manager's and Mayor's Offices for any new issuance of take-home vehicles, to include authorization letters. In addition, OMB will re-enforce its contact with departments to receive monthly usage reports.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Take-Home Vehicles Assigned Outside of Municipal Boundaries.**

- a. **Finding.** Three AWWU employees living outside of Municipal boundaries were assigned take-home vehicles. These three employees had rotating on-call duties. According to P&P 76-3.2.b, “Take-home vehicles will not normally be assigned to employees who reside outside the boundaries of the Municipality of Anchorage. If such an assignment is made, a letter of justification, signed by the Municipal Manger will be filed with the Office of Management and Budget (OMB).” These three employees did not have justification letters.
- b. **Recommendation.** AWWU should ensure that employees live within the Municipality’s boundaries when assigning take-home vehicles, unless a letter of justification is signed by the Municipal Manager and filed with OMB.
- c. **Management Comments.** Management concurred and stated, “AWWU does have employees that live outside of the Municipal boundaries. A letter of justification will be completed for each of these employees. These letters will be provided to the

Municipal Manager for approval and will be filed with the Office of Management and Budget by August 31, 2018.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Lack of Comprehensive Policy and Procedure.**

- a. **Finding.** Policy and Procedure 76-3 for Municipal take-home vehicles could be improved. It was last updated in 1996. While P&P 76-3 provided some guidance for take-home vehicles, it did not address other important aspects regarding the take-home vehicle program. For example, P&P 76-3 did not address the following:

- Can Municipal employees transport other persons, other than Municipal employees, in Municipal take-home vehicles? For example, can an employee pick up their child from school or day care?
- Who is responsible for the take-home vehicle program?
- Do take-home vehicles need to have a Municipal or Department logo?
- Can personal property, other than daily use items such as handbags, laptops, coats, etc. be transported in take-home vehicles?
- Can take-home vehicles be used for personal errands?
- If an employee is on vacation should the take-home vehicle be parked in a Municipal parking lot?
- Who follows-up on delinquent monthly usage forms?
- Since OMB no longer has a “Management Analysis Officer”, who in OMB maintains the master list of all take-home vehicles, authorization letters, and reviews, analyzes and maintains monthly reports and justification letters?
- How is Payroll notified about new take-home vehicles?

- b. **Recommendation.** The Municipal Manager should consider revising P&P 76-3 to clarify the internal controls over the Municipality’s take-home vehicle program.

- c. **Management Comments.** Management concurred and stated, “Agreed. OMB and ER/Payroll were tasked on May 25, 2018, with proposing revisions to P&P 76-3. The revisions should further address appropriate use of take-home vehicles, and procedures for ensuring proper tax-reporting compliance.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on May, 7, 8, 10, and 11, 2018.

Audit Staff:  
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