



CITY OF RICHMOND
CITY AUDITOR

DATE: July 20, 2020

TO: Ms. Lenora Reid
Acting Chief Administrative Officer

FROM: Louis Lassiter *LL*
City Auditor

SUBJECT: Citywide
Vehicle Utilization audit

The City Auditor's Office has completed the Citywide Vehicle Utilization audit and the final report is attached.

We would like to thank the Administration staff for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee
The Richmond City Council
Mona Adkins-Easley, Interim Director of Human Resources
Bobby Vincent, Director of Public Works
Melvin Carter, Chief of Richmond Fire Department
John Wack, Director of Finance

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City of
RICHMOND
Office of the City Auditor

Audit Report# 2021-03
Citywide - Vehicle Utilization Audit
July 20, 2020

Audit Report Staff

Louis Lassiter, City Auditor
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Highlights

Audit Report to the Audit Committee, City Council, and the Administration

Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY20 audit plan approved by the Audit Committee. The objective for this audit was to evaluate the effectiveness of and compliance to City vehicle utilization policies and procedures.

What We Recommended

Human Resources Director:

- Ensure the Human Resources staff and Vehicle Coordinators are trained on the Internal Revenue Service, Publication 15-B's requirements for taxable fringe benefits. The training should include their roles and responsibilities disseminating and gathering the PVU forms.

Public Works Director:

- Update the Fleet Management Policies and Procedures Manual to reflect the most appropriate mileage threshold to review underutilized vehicles.
- Establish oversight procedures to ensure unmarked vehicles are formally requested before issuing them.

Finance Director:

- Obtain a listing of Take-Home vehicles and the applicable commuting miles on an annual basis and coordinate this effort with the Fleet Operations Manager.

Other recommendations to improve operations and internal controls are included in the report.



Vehicle Utilization Audit

Background - The Fleet Management Division within the Department of Public Works (DPW) is responsible for establishing fleet management policies and procedures for the City to ensure vehicular resources are managed in a safe, reliable and cost-efficient manner. The Division is responsible for the purchase, assignment, marking, maintenance, repair, replacement, and disposal of city-owned vehicles. As of December 2019, the City had a total of 1,769 vehicles and equipment.

Needs Improvement

Finding #1 – Personal Vehicle Usage Fringe Benefits

An analysis of the identified Take-Home vehicles and the Payroll Register revealed at least 34 employees did not report their personal vehicle usage (PVU) form to the Finance Department. Thirty six employees submitted their quarterly PVU forms; however, at least six of them did not report all four quarters. The Auditors also noted, except for the Police Department, City departments with Take-Home vehicles do not have Take-Home policies and procedures as required by the City's Administrative Regulation 6.2. Employees are required to file an annual statement with the Finance Department. Poor oversight and coordination over the collection and submittal of the PVU forms to Payroll resulted in under reported wages and payroll tax liabilities.

Finding #2 – Underutilization of Vehicles

The auditors analyzed non-heavy equipment vehicles with mileage usage of less 5,000 during CY19 noting whether low mileage vehicles were justified. The analysis revealed 301 vehicles had mileage usage of less than 5,000. Fifty one had mileage usage of less than 1,000 and 250 had mileage usage of 1,000 miles or more, but less than 5,000. The auditors noted Fleet Management staff only requested justifications from the departments for vehicles with mileage usage of less than 1,000. This is inconsistent with their Policies and Procedures, which requires justifications for vehicle usage of less than 5,000 miles.

Finding #3 – Marking of City Vehicles

The auditors analyzed 72 unmarked City vehicles to determine whether they were appropriately excluded from City or department markings. The analysis revealed 15 vehicles that should have been marked before they were submitted to the departments. The auditors also noted other unmarked vehicles in the departments of Police and Fire that were assigned for administrative support, training, civilians, investigative purposes and/or executive level positions. Although Fleet Management's SOP requires a letter from the departments' directors requesting exemption from marking a vehicle, Fleet Management staff did not obtain letters from the departments specifying the need for unmarked vehicles. The auditors also noted the Fire Department did not have operating procedures for the assignment and expectations of driving unmarked vehicles. Not having vehicles marked with a City or department logo decreases governmental transparency and their presence is unknown in the community. Without policies and procedures, staff may not assign unmarked vehicles according to management's intention.

Finding #4– Take-Home Vehicle Authorizations

During Calendar Year 2019, Fleet Management staff did not obtain the Application for City Vehicle (BFM-1 form), to get approval from the appropriate Deputy Chief Administrative Officer and the Department Director before issuing Take-Home vehicles. According to Fleet Management's Policies and Procedures, permanent assignment of a vehicle must be approved by the "appropriate Deputy Chief Administrative Officer and Agency Head". Any changes to the vehicle assignments must also be submitted to Fleet Management on Form BFM-1 for approval.

Management concurred with 8 of 8 recommendations. We appreciate the cooperation received from Fleet Management and departments' staff while conducting this audit. /

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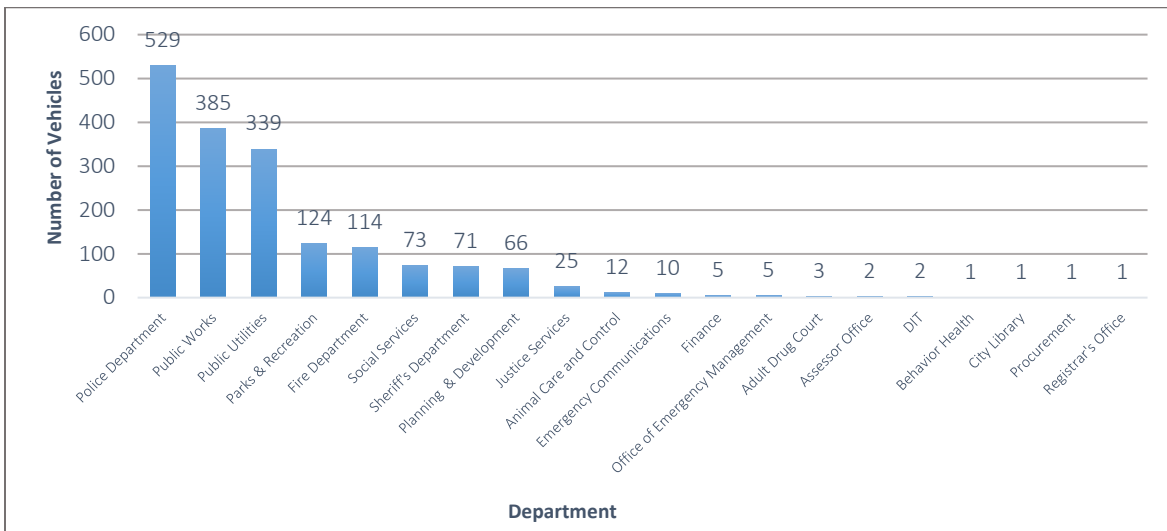
July 20, 2020

BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

BACKGROUND

The Fleet Management Division within the Department of Public Works (DPW) is responsible for establishing fleet management policies and procedures for the City to ensure vehicular resources are managed in a safe, reliable and cost-efficient manner. The Division is responsible for the purchase, assignment, marking, maintenance, repair, replacement, and disposal of city-owned vehicles. As of November 22, 2019, the City had a total of 1,769 vehicles and equipment. The following table illustrates the City's vehicles and equipment inventory by department:



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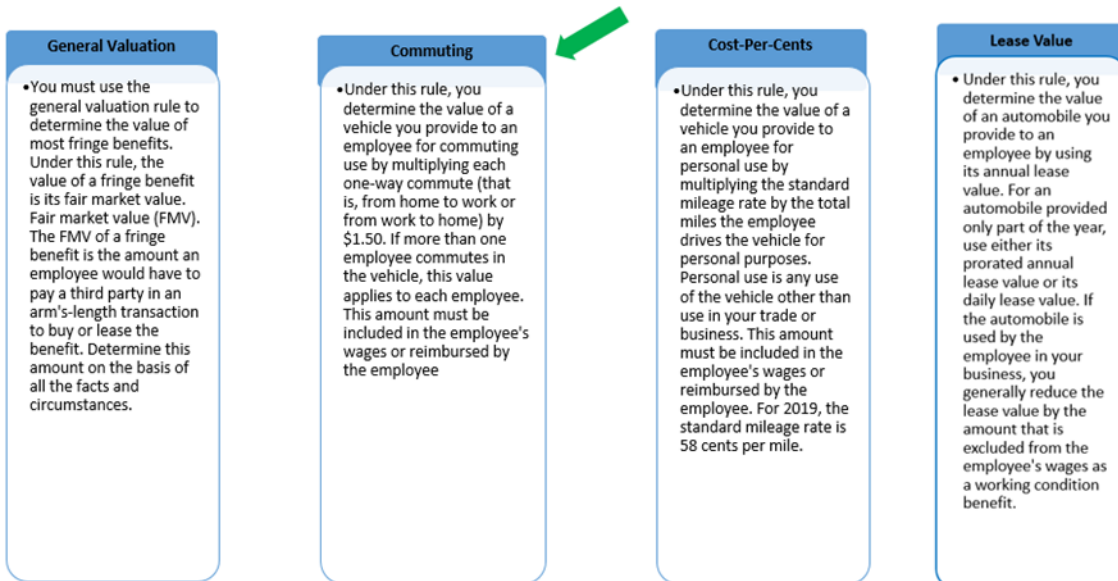
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Vehicle Utilization

Vehicle utilization is a function of comparing vehicle usage to vehicle needs. Annually, Fleet Management collects data during the yearly vehicle maintenance inspections. These reports are used to verify vehicle mileage and determine the vehicle's utilization status. All data is housed in their M5 Asset Management System. The M5 reports are used to capture data in all areas of fleet operations, specifically, for determining the utilization of the vehicles.

Personal Use of City-Owned Vehicles

Personal use of a City-owned vehicle is a fringe benefit, which is subject to employment taxes. The City is responsible for tracking personal usage, reporting its value as income, and withholding employment taxes on the income. The Internal Revenue Service (IRS) provides four methods for determining the value of personal use of an employer's vehicle as follows:



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Source: Internal Revenue Service – Publication 15-B

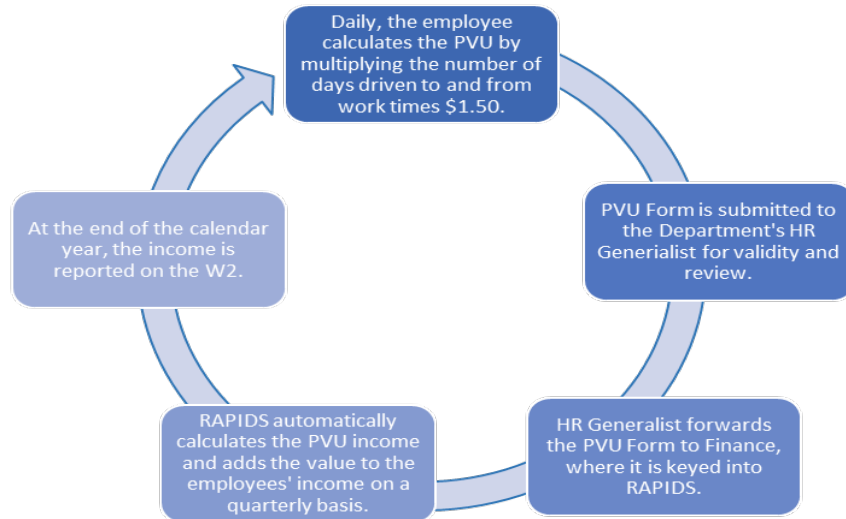
The Department of Finance used the commuting rule to calculate the value of personal use of City-owned vehicles. Under this method, the number of commuting days are multiplied by \$3 (1.50 each way). Employees who use certain types of City-owned vehicles for personal use are required

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to submit a PVU form quarterly stating the number of days they had personal use of City-owned vehicles. The process for reporting PVU is as follows:



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OBJECTIVE

The objective for this audit was to evaluate the effectiveness of and compliance to City vehicle utilization policies and procedures.

SCOPE

Vehicle utilization practices citywide and the reporting of fringe benefit income for employees' personal use of City-owned vehicles during Calendar Year 2019. City-owned vehicles assigned to Police Investigations, Police Uniformed, Fire Suppression and Fire Preservation, as well as heavy equipment were excluded from testing.

METHODOLOGY

The auditors performed the following procedures to complete this audit:

- Submitted questionnaires to City departments to determine which employees had Take-Home City-owned vehicles;

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- Interviewed City staff in various departments;
- Reviewed relevant Fleet Management Policies and Procedures and Administrative Regulation for compliance;
- Reviewed and analyzed payroll data to ensure compliance with IRS reporting of personal usage of City-owned vehicles; and
- Performed other tests, as deemed necessary.

MANAGEMENT RESPONSIBILITY

City of Richmond management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

INTERNAL CONTROLS

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the auditors concluded the internal controls over Vehicle Utilization and the reporting of the Taxable Fringe Benefit need improvement.

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FINDINGS and RECOMMENDATIONS

Improvements Needed

Finding #1 – Personal Vehicle Usage Fringe Benefits

An analysis of the identified Take-Home vehicles and the Payroll Register revealed at least 34 employees did not report their quarterly personal vehicle usage (PVU) form to the Finance Department. Thirty six employees submitted their PVU forms; however, at least six of them did not report all four quarters. The following table depicts the results of the analysis:

Department	Reported PVU		
	Full	Partial	None
Animal Care and Control	0	0	5
Emergency Communications	0	4	1
Fire Department	25	0	1
Planning & Development	0	0	7
Police Department	5	2	19
Public Utilities	0	0	1
	30	6	34
Total		70	

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For the 19 vehicles in the Police Department, some individuals may not be required to report PVU, depending on the authorization and usage. In addition, the auditors also noted there may be other employees in the Public Utilities and Police Departments who took City vehicles home and should have submitted the PVU forms to the Finance Department.

According to the Internal Revenue Service, Publication 15-B, the use of a business vehicle to commute to and from work is a fringe benefit that is subject to payroll taxes and must be reported on an employee's W2. The Publication provides some exemptions for qualified non-personal use vehicles, such as clearly marked police, fire and public safety vehicles. It also exempts unmarked

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vehicles used by law enforcement officers, if the use is properly authorized and related to law enforcement functions, such as reporting directly from home to an emergency situation.

The Auditors also noted, except for the Police Department, City departments with Take-Home vehicles do not have Take-Home policies and procedures as required by the City's Administrative Regulation 6.2. The Regulation states that each agency must have a Take-Home Policy. It further states that staff who are assigned a Take-Home vehicle will be assessed the PVU tax, which would be reflected as additional income on the employees' paycheck for tax purposes. Employees are required to file an annual statement with the Finance Department.

As previously stated, the Police Department has a General Order for Take-Home vehicles. However, it does not provide guidance for exemptions and what constitutes a taxable fringe benefit that must be reported to the Department of Finance.

Poor oversight and coordination over the collection and submittal of the PVU forms to Payroll resulted in under reported wages and payroll tax liabilities for employees who used City-owned vehicles for personal use. Some of the Vehicle Coordinators did not have clear guidance about the Department of Treasury's requirements for Take-Home vehicles. Also, the Human Resources (HR) personnel did not consistently reach out to the Vehicle Coordinators to remind them about submitting the PVU forms. Some of the HR staff indicated they did not take action upon receiving the reminder from Finance while others indicated they did not know what to do with the information.

Recommendations:

- 1. We recommend the Director of Human Resources ensure the Human Resources staff and Vehicle Coordinators are trained on the Internal Revenue Service, Publication 15-B's requirements for taxable fringe benefits. The training should include their roles and responsibilities disseminating and gathering the PVU forms.*

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2. *We recommend the Human Resources Director revise Administrative Regulation 6.2 for Motor pool and City Vehicle usage to include guidance on what constitutes a taxable fringe benefit to ensure compliance with the Internal Revenue Service, Publication 15-B.*

Finding #2 – Undertilization of Vehicles

The auditors analyzed non-heavy equipment vehicles with mileage usage of less than 5,000 during CY19 noting whether low mileage vehicles were justified. The analysis revealed 301 vehicles had mileage usage of less than 5,000 as follows:

- 51 vehicles – usage of less than 1,000 miles.
- 250 vehicles – usage of 1,000 miles or more, but less than 5,000

The auditors noted Fleet Management staff only requested justifications from the departments for vehicles with mileage usage of less than 1,000, which is inconsistent with their Policies and Procedures Manual. According to their Citywide Policies and Procedures, the minimum criteria and other conditions necessary for the assignment of a fleet vehicles are:

- 5,000 miles accrued per year, or
- If below the minimum annual mileage, the vehicle must be justified by the Agency Head annually.

According to Fleet Management staff, the minimum mileage criteria has been reduced multiple times to support the departments' vehicle needs. The following graphic compares the Policy versus their practice:



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An analysis of vehicles that have been placed in service for over a year revealed 18 vehicles had an average mileage usage of less than 2,000 miles. The average annual mileage ranged from 866 to 1,997.

Although some practices have changed over the years, the Fleet Management's Policies and Procedures Manual has not been updated since August 15, 2008. Additionally, reducing mileage usage to 1,000 per year may not be financially advantageous for the City.

Recommendation:

- 3. We recommend the Public Works Director update the Fleet Management Policies and Procedures Manual to reflect the most appropriate mileage threshold to review underutilized vehicles.*

Finding #3 – Marking of City Vehicles

The auditors analyzed 72 unmarked City vehicles to determine whether they were appropriately excluded from City or department markings. The analysis revealed 15 vehicles that should have been marked before they were submitted to the departments. The following table depicts the 15 vehicles by department:

Department	No. of Vehicles
Emergency Communications	6
Police	3
Procurement	1
Public Utilities	4
Registrar	1

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The auditors also noted other unmarked vehicles in the departments of Police and Fire that were assigned for administrative support, training, civilians, investigative purposes and/or executive level positions. The following table depicts the assignments for these vehicles:

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Department	No. of Vehicles	Assignment
Police	31	Administrative, investigative and civilian positions
Fire	16	Civilian pool, five investigators, training, executives

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Police and Fire staff took 19 and 12, of these vehicles home, respectively.

The Fleet Management's Equipment Identification Standard Operating Procedures (SOP) provide guidance for placement of logos and numbering system for non-safety departments. The SOP did not address vehicle markings for the Police and Fire Departments. Additionally, although Fleet Management's SOP requires a letter from the departments' directors requesting exemption from marking a vehicle, Fleet Management staff did not obtain letters from the departments specifying the need for unmarked vehicles. Not having vehicles marked with a City or department logo decreases governmental transparency and their presence is unknown in the community. Fleet Management staff did not have proper oversight over the distribution of unmarked vehicles.

The auditors also noted the Fire Department did not have operating procedures for the assignment and expectations of driving unmarked vehicles. Without policies and procedures, staff may not assign unmarked vehicles according to management's intention.

Recommendations:

- 4. We recommend the Public Works Director revise the Vehicle Identification Standard Operating Procedures to provide guidance for marking Fire and Police vehicles.*
- 5. We recommend the Public Works Director establish oversight procedures to ensure unmarked vehicles are formally requested before issuing them.*
- 6. We recommend the Fire Chief establish and implement Operating Procedures for assigning and operating unmarked vehicles.*

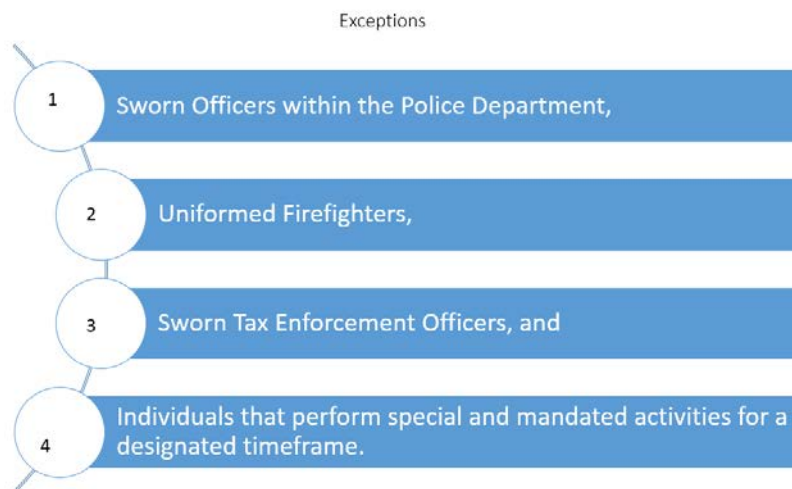
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Finding #4 – Take-Home Vehicle Authorizations

During Calendar Year 2019, Fleet Management staff did not obtain the Application for City Vehicle (BFM 1 form), to get approval from the appropriate Deputy Chief Administrative Officer and the Department Director before issuing Take-Home vehicles to the departments. According to Fleet Management's Policies and Procedures, permanent assignment of a vehicle to an individual must be requested via Form BFM-1. The Form must be signed by the "appropriate Deputy Chief Administrative Officer and Agency Head". Any changes to the vehicle assignments must also be submitted to Fleet Management on Form BFM-1 for approval. The Policies and Procedures Manual provides exceptions for obtaining approval, which include:



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The auditors noted Fleet Management staff did not require formal approval before issuing Take-Home vehicles to the departments and did not communicate the Policy's requirement to the Vehicle Coordinators. Non-compliance with the Policy could result in providing Take-Home vehicles to employees that are not cost beneficial to the City, including additional costs, such as:

- Maintenance costs due to wear and tear,
- Cost of Gasoline usage, and
- Exposure to liability claims and property damage.

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The auditors also noted Fleet Management did not maintain vehicle travel logs for Take-Home vehicles that were not used in an official law enforcement or emergency services capacity. According to their Policies and Procedures Manual, the log must be summarized on a quarterly basis by the operator and submitted to their agency head for review. The departments are required to submit the total commute mileage for each vehicle to the Fleet Administrator annually.

Recommendations:

- 7. We recommend the Fleet Management Operations Manager communicate the Take-Home Vehicle approval process (BFM-1) to all Vehicle Coordinators and ensure compliance with the Policy.*
- 8. We recommend the Finance Director obtain a listing of Take-Home vehicles and the applicable commuting miles on an annual basis and coordinate this effort with the Fleet Operations Manager.*

APPENDIX A: MANAGEMENT RESPONSE FORM

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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the Director of Human Resources ensure the Human Resources staff and Vehicle Coordinators are trained on the Internal Revenue Service, Publication 15-B's requirements for taxable fringe benefits. The training should include their roles and responsibilities disseminating and gathering the PVU forms.	Y	The Human Resources Department will develop and provide training to Human Resources staff and Vehicle Coordinators on the Internal Revenue Service, Publication 15-B and their roles and responsibilities surrounding PVU forms.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	HR Director, HRIS Manager and Training Manager		1-Dec-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
2	We recommend the Human Resources Director revise Administrative Regulation 6.2 for Motor pool and City Vehicle usage to include guidance on what constitutes a taxable fringe benefit to ensure compliance with the Internal Revenue Service, Publication 15-B.	Y	The HR Department will revise Administrative Regulation 6.2 for Motor Pool and City Vehicle Usage to ensure compliance with the Internal Revenue Service, Publication 15-B.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operations Manager		30-Sep-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
3	We recommend the Public Works Director update the Fleet Management Policies and Procedures Manual to reflect the most appropriate mileage threshold to review underutilized vehicles.	Y	The Public Works Department will revise policy manual.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Fleet Manager		25-Jul-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
4	We recommend the Public Works Director revise the Vehicle Identification Standard Operating Procedures to provide guidance for marking Fire and Police vehicles.	Y	The Public Works Department will revise policy manual.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Fleet Manager		25-Jul-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
5	We recommend the Public Works Director establish oversight procedures to ensure unmarked vehicles are formally requested before issuing them.	Y	The Public Works Department will revise policy manual.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Fleet Manager		25-Jul-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

APPENDIX A: MANAGEMENT RESPONSE FORM
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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	We recommend the Fire Chief establish and implement Operating Procedures for assigning and operating unmarked vehicles.	Y	The Fire Department will update and revise the current policies, procedures, and/or guidelines for assigning, and operating unmarked vehicles.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Deputy Fire Chief Elmond Taylor		August 17, 2020 or sooner
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	In progress, no delays		Revising current policy inclusive of auditors finding, recommendations and best practices applicable to Richmond Fire.
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
7	We recommend the Fleet Management Operations Manager communicate the Take-Home Vehicle approval process (BFM-1) to all Vehicle Coordinators and ensure compliance with the Policy.	Y	The Public Works Department will revise policy manual and provide a copy of the updated manual to all Vehicle Coordinators.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Fleet Manager		25-Jul-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
8	We recommend the Finance Director obtain a listing of Take-Home vehicles and the applicable commuting miles on an annual basis and coordinate this effort with the Fleet Operations Manager.	Y	The Finance Department will work with the Public Works Department to standardize and automate the collection of Take-Home vehicle commuting miles on an annual basis.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Senior Deputy Director of Finance		1-Jan-21
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION