

OFFICE OF THE CITY CONTROLLER



**PUBLIC WORKS AND ENGINEERING DEPARTMENT
HOME STORAGE VEHICLE PROGRAM AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor

Report No. 2007-06



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

December 4, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Public Works and Engineering Department
Home Storage Vehicle Program Audit (Report No. 2007-06)

Dear Mayor White:

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

The report, attached for your review, concludes that that the Department operates the Program in compliance with City Procedures, Executive Orders and applicable IRS regulations. The auditors also concluded that internal controls over the Program are adequate, except for the findings presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The views of responsible officials as to actions being taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Michael S. Marcotte, Director, P.E., DEE, Public Works and Engineering Department
Judy Gray Johnson, Director, Finance and Administration Department

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PURPOSE AND SCOPE

We have completed an audit of the Home Storage Vehicle Program (the Program) within the Public Works and Engineering Department (PW&E). The audit's objective was to determine if the Program was operating in compliance with Administrative Procedure 2-2 (Motor Vehicle Assignment and Use), Executive Order No. 1-41 (Executive Vehicle Assignment/Allowance), Departmental Standard Operating Procedures, and any applicable IRS commuting regulations.

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

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

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

CONCLUSION

Based on the results of our audit, we concluded that the PW&E operates the Program in compliance with City Procedures, Executive Orders and applicable IRS regulations. We also concluded that internal controls over the Program are adequate, except for the findings presented in the body of the report.

We would like to acknowledge the efforts of the Fleet Manager and her staff. The Program records we reviewed were complete and well maintained.


Scott Haiflich
Auditor-in-charge


Richard Martinez
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

PW&E is headquartered at 611 Walker Street. According to the Program data supplied by the Fleet Management Division of the Finance and Administration Department, as of December 31, 2005, PW&E had approximately 400 home storage vehicles assigned to drivers. The data also reflected approximately \$680,000 in vehicle maintenance costs and \$654,000 in fuel costs during calendar year 2005, for total operating costs of approximately \$1,334,000. Total vehicle acquisition costs related to the approximately 400 vehicles totaled approximately \$6.9 million.

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

FINDINGS & RECOMMENDATIONS

I. HOME STORAGE VEHICLE ASSIGNMENT JUSTIFICATIONS

BACKGROUND

A.P. 2-2, Sec 15.1, allows assignment of Program vehicles to employees "who by nature of job assignments and/or responsibilities including but not limited to reporting directly to work sites, being placed 'on call' or providing special repair or emergency services after normal working hours". The Equipment Assignment/Form A/Disposal Data Sheet (ES-1 Form) is completed when a Home Storage Vehicle is assigned. Justifications for assignment are recorded in Section 2 of the form.

FINDING

Actual call-outs reported by drivers on Quarterly Mileage Reports do not support the "call-out" justifications, based on frequency recorded on the majority of ES-1 Forms we reviewed. We performed an analysis of calendar year 2005 call-outs reported on Quarterly Mileage Reports. The following table schedule reflects the results of our analysis:

2005 CALL OUT ANALYSIS		
Call-out Frequency	Program Vehicles with after hours call-outs	%
-0- trips	59	21%
1 trip	11	4%
2 trips	8	3%
3 trips	13	5%
4 trips	13	5%
5 trips	5	2%
6 trips	4	1%
7 trips	12	4%
8 trips	12	4%
9 trips	6	2%
10 trips	4	1%
11 trips	5	2%
12 trips	5	2%
Over 12 trips	125	44%
TOTAL	282	100%

The results of our analysis suggest that perhaps as much as 56% of Program vehicle assignments were unnecessary, since the numbers of actual call-outs were so few. Although drivers are maintaining records, Fleet Management is not analyzing recorded call-outs.

RECOMMENDATION

To help ensure that vehicle assignments are in the best interest of the City, we recommend that PW&E Fleet Management reassess the validity of call-out justifications recorded on ES-1 Forms by analyzing actual call-out frequency related to current Program vehicles.

To help ensure that future justifications are valid, we recommend that PW&E Fleet Management periodically (at least annually) analyze actual call-outs recorded on Quarterly Mileage Reports.

II. IMPUTED INCOME REPORTING

BACKGROUND

According to IRS Publication 15-B, the assignment of a Program vehicle is a fringe benefit to the employee and is therefore, taxable as imputed income. The taxable income is calculated at the rate of \$1.50 per one-way commuter trip, which translates into \$3.00 per day for commutes to and from work. There are

exceptions to the regulation and some Department employees who have been assigned Program were exempted from being taxed for commuter trips based on the type of vehicle assigned/driven.

Drivers in each division complete, and their supervisors approve Take Home Vehicle Imputed Wages Forms to report commuter trips each quarter. Those forms are forwarded to PW&E Fleet Management. Fleet Management also receives Quarterly Mileage Reports from divisions that reflect, among other data, commuter trips for the quarter. Fleet Management procedures, however, do not include a comparison of commuter trips reported on imputed wages forms to commuter trips reported on Quarterly Mileage Reports. Accordingly, Fleet Management forwards imputed income forms on to Payroll without review for accuracy.

FINDING

Our testing revealed 27 instances (involving 20 drivers over six quarters) in which commuter trips recorded on Take Home Vehicle Imputed Wages Forms did not match the trips reported on Quarterly Mileage Reports. In addition, Quarterly Mileage Reports were reported by actual calendar year quarters, while the imputed wages reports were not.

RECOMMENDATION

To help control the reporting of imputed income, we recommend that the PW&E Fleet Manager coordinate with the Finance and Administration Department Central Payroll Division and develop procedures for verifying that commuter trips are accurately reported. Procedures should minimally include comparison by PW&E Fleet Management staff of commuter trips reported on Take Home Vehicle Imputed Wages Forms and Quarterly Mileage Reports. We also suggest that the two forms report data on a three-month quarter basis.

EXHIBIT I



CITY OF HOUSTON

Public Works and Engineering
Department

Interoffice

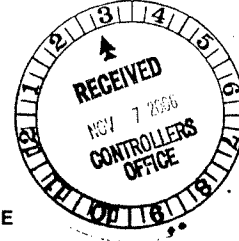
Correspondence

To: Annise D. Parker
City Controller

From: Director

Date: November 6, 2006

Subject: HOME STORAGE VEHICLE
PROGRAM AUDIT



We have reviewed your Home Storage Vehicle Program Audit draft report. We appreciate the recommendations made by the auditors. As requested by your memo of October 25, 2006, our management response to the recommendations follow.

HOME STORAGE VEHICLE ASSIGNMENT JUSTIFICATIONS

Recommendation:

To help ensure that vehicle assignments are in the best interest of the City, we recommend that PW&E Fleet Management reassess the validity of call-out justifications recorded on ES-1 Forms by analyzing actual call-out frequency related to current Program vehicles.

To help ensure that future justifications are valid, we recommend that PW&E Fleet Management periodically (at least annually) analyze actual call-outs recorded on Quarterly Mileage Reports.

Response:

We agree. Effective January 2007, all employees who participate in the Home Storage Vehicle Program will be instructed to consistently submit their documentation for all after-hour or non-scheduled response calls. The Fleet Management Manager will establish a database for performing quarterly or annual analysis. An annual report will be provided to the Deputy Directors, and they will review and make recommendations.

IMPUTED INCOME REPORTING

Recommendation:

To help control the reporting of imputed income, we recommend that the PW&E Fleet Manager coordinate with the Finance and Administration Department Central Payroll Division and develop procedures for verifying that commuter trips are accurately reported. The procedures should minimally include comparison by PW&E Fleet Management staff of commuter trips

CONTROLLERS

Views of Responsible
Officials

EXHIBIT I

reported on Take Home Vehicle Imputed Wages Forms and Quarterly Mileage Reports. We also suggest that the two forms report data on a three-month quarter basis.

Response:

The responsibility for verifying data on Imputed Wages Forms belongs to the Fleet Management staff. The Fleet Management Manager has set up a procedure whereby the commuter trips reported on the Take Home Vehicle Imputed Wages Forms and the Quarterly Mileage Reports will be compared and documented.

In prior years, the fourth quarter Take Home Vehicle Imputed Wages Forms comprised only October and November commuter trips due to Central Payroll's end-of-year time table. December commuter trips were reported with the first quarter of the following year. To comply with the audit recommendation, commuter trips reported on December Take Home Vehicle Imputed Wages Forms will be obtained from the employees at month-end and combined with October and November trips to reflect the fourth quarter commuter trips. Fleet Management staff will then compare the commuter trips reported on the Take Home Vehicle Imputed Wages Forms with the Quarterly Mileage Reports.

If you have any questions, please contact Godwin Okoro at (713) 837-0347 or Debra Baldwin at (713) 837-0222.


Michael S. Marcotte, P.E. DEE

CC: Waynette Chan, Chief of Staff
Eric K. Dargan, Deputy Director
Godwin Okoro, Deputy Assistant Director
Richard P. Martinez, Audit Manager, Controller's Office

**Views of Responsible
Officials**