



COUNCIL AGENDA: 5/10/2022

ITEM: 3.5

FILE NO: 22-652

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Toni J. Taber, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: May 10, 2022

SUBJECT: Fleet: Take Home Vehicles Audit Report

Recommendation

As recommended by the Public Safety, Finance and Strategic Support Committee on April 21, 2022, accept the report on the Fleet: Take Home Vehicles Audit.

CEQA: Not a project, File No. PP17-009, Staff Report, Assessments, annual Reports, and Informational Memos that involve no approvals of any City action. (City Auditor)

[Public Safety, Finance and Strategic Support Committee referral 4/21/2022 - Item (d)4]



Office of the City Auditor

**Report to the City Council
City of San José**

**TAKE-HOME VEHICLES:
IMPROVED CONTROLS CAN
BETTER ENSURE
COMPLIANCE WITH CITY
POLICIES**

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April 14, 2022

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Take-Home Vehicles: Improved Controls Can Better Ensure Compliance With City Policies

The City of San José (City) has a fleet of nearly 2,700 vehicles, including transport, special purpose, and police and fire vehicles. City Policy Manual 1.8.1 *Use of City and Personal Vehicles* (CPM 1.8.1) allows departments to assign take-home vehicles for after-hour emergency responses by employees on standby duty assignments that require special purpose or police and fire vehicles. Other requirements for being eligible for a take-home vehicle include having a minimum of 24 annual call-backs (after-hour emergency responses), having a one-way commute of 30 miles or less, and being able to respond to a call-back within 45 minutes.

In 2021, the City Manager's Office authorized 222 take-home vehicles to 238 City employees. The Police Department had the most take-home vehicles – 145 in total. Six other departments had employees assigned take-home vehicles. The objective of this audit was to assess current practices for take-home vehicles.

Finding I: Clarifying Policies and Streamlining Processes Can Lead to Better Management of Take-Home Vehicles. In 2021, commuting mileage for take-home vehicles totaled an estimated 1.6 million miles. Using the Internal Revenue Service standard mileage rate of 56 cents per mile, this translates to over \$871,000 in commuting costs. Many employees assigned take-home vehicles, however, did not meet the policy guidelines. We found:

- More than a third of employees assigned take-home vehicles had not reached the required number of call-backs, over 20 percent exceeded the one-way commute threshold, and over 60 percent were not on standby duty assignments under the terms of agreements with the City's employee bargaining units.
- Public Works is tasked with administering the take-home vehicle policy, though they have little enforcement authority.
- The current manual authorization process is time-consuming and prone to errors. It is also does not account for changes to vehicle assignments during the year. Public Works is currently exploring an electronic option to streamline the approval process.

Recommendations:

To better ensure compliance with the CPM 1.8.1, the City should:

- Update the policy to clarify roles and responsibilities, including how to track call-backs, conduct required cost-benefit analyses, and monitor for personal use

- There are no policy guidelines to monitor for potential personal use outside of commuting, though the City has installed telematics (i.e., an electronic system to track vehicle location, performance, and other data) on many take-home vehicles which could provide that opportunity.
- In limited circumstances, commuting costs may be a taxable fringe benefit. However, the City may not have identified all potentially affected employees.

- Develop an electronic approval process to better manage take-home vehicles
- Develop a process to accurately report taxable fringe commuting benefits, when appropriate

This report has five recommendations. We plan to present this report at the April 21, 2022 Public Safety, Finance & Strategic Support Committee. We would like to thank the Public Works Department, the Finance Department, and the City Attorney's Office for their time, information, insight, and cooperation during the audit process. The Administration has reviewed the information in this report, and their response is shown on the yellow pages.

Respectfully submitted,



Joe Rois
City Auditor

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This report is also available online at www.sanjoseca.gov/audits

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Background

The City of San José (City) has a fleet of nearly 2,700 vehicles, including transport, special purpose, and police and fire vehicles.

1. **Transport vehicles:** Vehicles whose primary use is to transport employees (i.e., sedans and trucks).
2. **Special Purpose vehicles:** Vehicles whose primary use requires the use of special equipment to perform certain job functions (i.e., trucks with a lift or crane, utility trucks).
3. **Police and Fire vehicles:** Vehicles whose primary use involves services conducted by the Police or Fire Departments.

The Department of Public Works is responsible for managing the City's fleet by working with departments to maximize utilization of vehicles, maintaining the fleet in good working condition, determining which vehicles will be removed from service, and managing the acquisition and disposal of vehicles.

The City's Vehicle Policy

City Policy Manual 1.8.1 *Use of City and Personal Vehicles* (CPM 1.8.1) establishes:

...the policy, procedures, and guidelines for the use of City and personal vehicles for the efficient and effective delivery of City services, while minimizing City expenditures and maximizing current resources.

The policy also states,

Transportation required for employees to conduct official City business will be available by the use of a City-provided vehicle or the use of an authorized personal vehicle at the City's sole discretion.

Under the policy, personal use of City-provided vehicles is prohibited.

The City Manager is responsible for the administration of the policy and makes decisions regarding certain specific vehicle uses. Under the policy, Public Works has the responsibility to manage the fleet. The policy was most recently updated in January 2020.

Assignment of Take-Home Vehicles

CPM 1.8.1 allows for employees to take City vehicles home to enable after-hour emergency response by authorized employees who are on stand-by duty assignments that require Special Purpose or Police and Fire vehicles. Authorization may be granted to employees in a job classification that meet *all* the following conditions to take home a City vehicle:

1. Employees must be on standby duty assignments and required to respond to after-hours emergencies.
2. The standby duty requires a Special Purpose, Police or Fire vehicle. No transport vehicles (e.g., sedans and trucks) should be taken home.
3. The standby duty has met a minimum number of call-back events in the previous year. Though it may differ by job function; it should be no less than 24 call-backs.
4. The employee must be able to respond to the first call-back instance within a maximum of 45 minutes of the call.
5. One-way commute miles from place of residence do not exceed 30 miles.
6. Must be authorized by the City's Manager Office (CMO) during an Annual Authorization process.

Roles and Responsibilities

The take-home vehicle program requires the involvement and oversight of department directors and staff, Public Works staff, and the CMO.

Departments are responsible for assigning and maintaining a list of employees with take-home vehicles; Public Works is responsible for the overall management of the City's fleet, including take-home vehicles; and the CMO reviews and approves the list of take-home vehicles provided by departments. Lastly, the Finance Department (Finance) is responsible for determining whether the assigned staff's use of a City vehicle is a taxable fringe benefit and reporting such to the Internal Revenue Service (IRS).

Exhibit I: Roles and Responsibilities of Managing and Assigning Employees With Take-Home Vehicles as Defined in the Take-Home Policy

Who	Responsibilities
Departments	<ul style="list-style-type: none"> • Submit a written request, by the department director, for employees assigned take-home vehicles through an annual authorization process • Submit policy exemption requests and, if applicable, a cost-benefit analysis, for employees that do not meet the policy requirements • Submit, in writing, a request for additions to the take-home vehicle list, for approval from the City Manager's Office via the Public Works Department
Public Works	<ul style="list-style-type: none"> • Compile and summarize department requests • Review all requests to ensure they adhere to the policy • Submit to the City Manager's Office for final review and approval
City Manager's Office	<ul style="list-style-type: none"> • Review and approve the list of take-home vehicles • Prepare a final list of authorized employees with take-home vehicles
Finance	<ul style="list-style-type: none"> • Determine if the employee's use of a take-home vehicle is subject to IRS reporting requirements

Source: Auditor summary of City Policy Manual 1.8.1 *Use of City and Personal Vehicles*.

Take-Home Vehicle Authorization Process

Employees are approved to take home a City vehicle on an annual basis through an Annual Authorization Process.

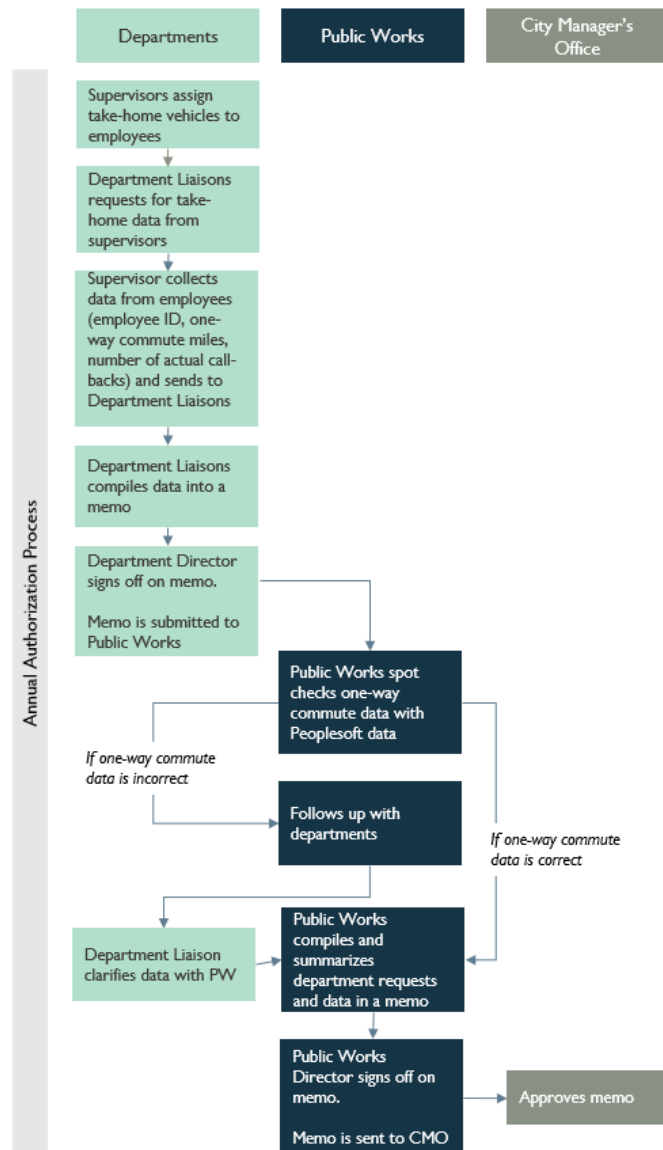
Departments submit their requests through a standard memo that includes the following, per CPM 1.8.1:

- A list of employees by job classification and vehicle numbers needed for the job function
- Call-back performance data (number of annual call-backs by vehicle and by job assignment)
- Justification by job function assignment
- As applicable, policy exemption requests in the event an employee does not meet response times, commute miles, and call-back thresholds
- As applicable, a cost-benefit analysis in the event that the number of call-backs do not meet the minimum threshold

Public Works is responsible for compiling and summarizing all department requests, reviewing all requests to ensure that they adhere to the policy, and submitting to the CMO for final approval.

See Exhibit 2 for the annual authorization process and department responsibilities.

Exhibit 2: Decentralized Vehicle Authorization and Tracking



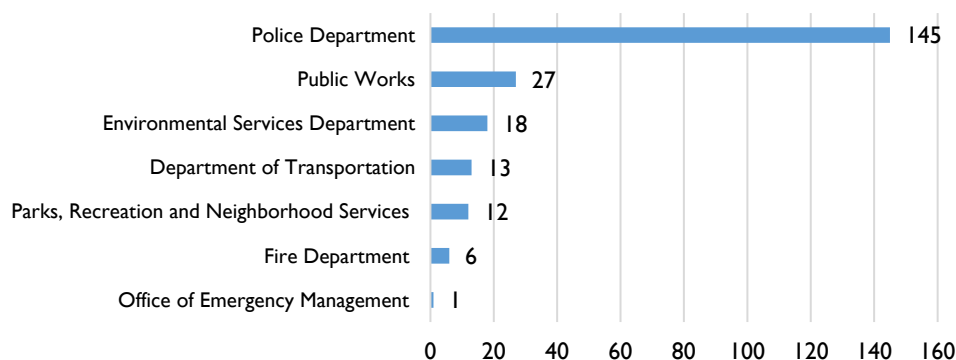
Source: Auditor analysis of the City's vehicle policy and department interviews.

The City's Take-Home Vehicles in 2021

For calendar year 2021, the CMO authorized 222 take-home vehicles to 238 City employees. Take-home vehicles account for about 8 percent of the City's total fleet. In 2021, the City authorized take-home vehicles to seven departments or offices, including the Police Department; Public Works; the Environmental Services Department; the Department of Transportation; Parks, Recreation and Neighborhood Services; the Fire Department; and the Office of Emergency Management.

The Police Department had the most take-home vehicles; 145 in total, or 65 percent of the overall number of take-home vehicles.

Exhibit 3: Number of Take-Home Vehicles By Departments (2021)



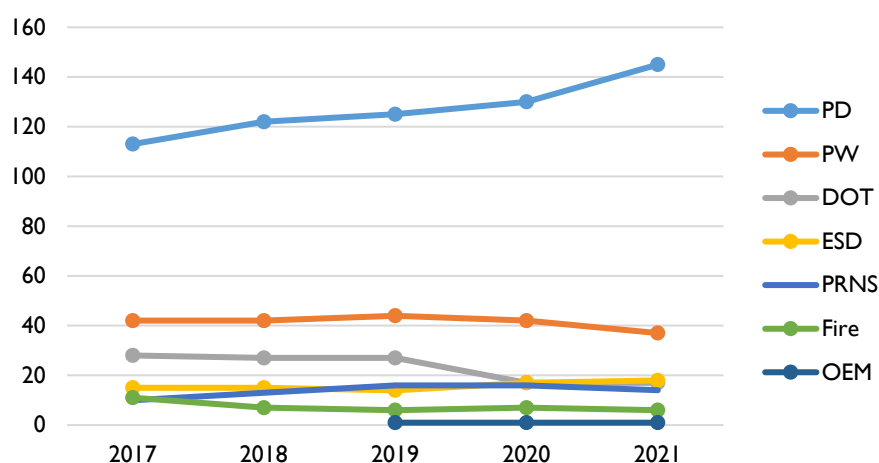
Source: Auditor analysis of take-home vehicle roster submitted by departments.

Note: In its submission, DOT listed nine vehicles as “various” rather than by equipment ID number. For this analysis, each of these entries were counted as one vehicle.

Authorized City Employees With Take-Home Vehicles in the Past Five Years

In the past five years, the number of employees with take-home vehicles have either decreased or remained relatively the same for all departments except for the Police Department. The Police Department increased their number of employees with take-home vehicles by 28 percent in the last 5 years.

Exhibit 4: Authorized City Employees With Take-Home Vehicles By Departments (2016-2021)



Source: Auditor analysis of take-home vehicle annual authorization data 2016-2021.

Note: PD has 66 positions reported as “rotates” from 2017-2020, each were counted as one employee.

Take-Home Vehicles Can Be A Taxable Fringe Benefit

Take-home use of a City vehicle may be a taxable fringe benefit under IRS guidelines. If an employer provides a vehicle that is used exclusively for business purposes, it is not a taxable fringe benefit. However, commuting to and from an employee's place of residence is a personal commute and may be a taxable fringe benefit. Some vehicles are exempt from this requirement, such as marked police and fire vehicles, specialized utility repair trucks, or vehicles designed to carry cargo of certain weights. Regular sedan and trucks are generally not exempt.

Per CPM 1.8.1, Finance is responsible for compliance with IRS guidelines around commuting fringe benefits. To do this, Finance uses information departments provide to Public Works during the Annual Authorization Process and requests additional information including:

- Department determination of when the vehicles are exempt from the benefit calculation
- One-way mile commute
- Estimated number of days the vehicle was used

The Finance Department uses a cents-per-mile rule to calculate the taxable fringe benefit. According to the IRS Guidelines, this calculation is based on the total annual miles used for personal commuting (one-way commute multiplied by 2 multiplied by total number of days with take-home use) multiplied by the standard federal mileage rate. IRS guidelines are further discussed in Finding 1.

Finding I Clarifying Policies and Streamlining Processes Can Lead to Better Management of Take-Home Vehicles

Summary

In 2021, commuting with take-home vehicles totaled an estimated 1.6 million miles, translating to over \$871,000 in commuting costs. Many City employees with City take-home vehicles did not meet the City's eligibility requirements for take-home vehicles. More than a third of employees assigned take-home vehicles had not reached the required number of call-backs in the prior year, over 20 percent exceeded the one-way commute threshold, and 60 percent were not on standby duty under the terms of agreements with their bargaining units. Clarifying the policy to better define responsibilities for managing take-home vehicles, and streamlining the current manual approval process can help better enforce the policy. Because commuting in a City vehicle may be a taxable fringe benefit, the Finance Department should update the process for calculating taxable fringe benefits, and work with Public Works to review the list of take-home vehicles against IRS guidelines.

Commuting in City Vehicles Can Be Costly

In 2021, based on information provided to the City Manager's Office as part of the annual authorization process, commuting accounted for an estimated 1.6 million miles for take-home vehicles.¹ Using the IRS standard mileage rate of 56 cents per mile, this translates to over \$871,000 in commuting costs. It should be noted, because of COVID-19, the actual cost of commuting may potentially be lower for some employees who transitioned to work from home during the pandemic. However, because the Police Department accounted for 1.3 million miles, or 86 percent, of all commuting miles, the amount and cost of mileage was still significant.

¹ As available, analysis included updated information from departments.

Exhibit 5: The City Potentially Incurred Over \$871,000 in Commuting Costs for Take-Home Vehicles

Departments	Number of vehicles	Estimated commuting miles	Estimated cost of commuting (\$6¢/mile)
Police	145	1,343,616	\$752,425
Public Works	27	82,956	\$46,455
Fire	6	54,240	\$30,374
Environmental Services	18	26,611	\$14,902
Transportation	13	18,337	\$10,269
Office of Emergency Management	1	16,320	\$9,139
Parks, Recreation and Neighborhood Services	12	13,440	\$7,526
Total	222	1,555,520	\$871,091

Source: Auditor analysis of take-home vehicle data provided by departments. Estimated commuting miles were calculated by estimated number of days with take-home vehicle multiplied by estimated mileage to and from place of residence.

Commuting Can Accelerate Vehicle Replacement

Public Works' policies and procedures define conditions for the replacement of City vehicles. Because vehicles' useful lives are defined in part by mileage thresholds, excessive commuting mileage can accelerate the need to replace City vehicles.

Currently, the City's goal is to replace sedans and trucks after they have been in the fleet for at least 8 years or driven at least 80,000 miles. Police motorcycles are replaced after 4.5 years or 60,000 miles (annual utilization of 13,333 miles). In 2021, patrol motorcycles incurred an estimated total of 170,000 miles in commuting alone. This is equivalent to the useful lives of nearly three motorcycles.

Many City Employees With Take-Home Vehicles Do Not Meet the Policy Requirements

Many employees assigned take-home vehicles in 2021 did not meet the requirements outlined in CPM 1.8.1. The estimated commuting costs for these employees totaled over \$500,000.

Exhibit 6: Many Take-Home Vehicles Did Not Meet the Requirements Outlined in City Policy

Take-Home Vehicle Guidelines (CPM 1.8.1)	2021 Take-Home Vehicles
At least 24 call-back events during the previous year	More than a third of employees assigned a take-home vehicle reported less than 24 call-backs.
Employee responding to the call-back should be able to respond within 45 minutes	Departments varied in enforcing this requirement, and in some cases noted more than 45 minutes as an expectation for staff to respond.
30-mile maximum one-way commute	Over 20 percent of employees had a one-way commute exceeding 30 miles (and nearly 5 percent had a one-way commute exceeding 50 miles)
Employee required to be on standby duty	Over 60 percent of employees with take-home vehicles were not on standby duty as defined by Memorandum of Agreements with the relevant bargaining units.

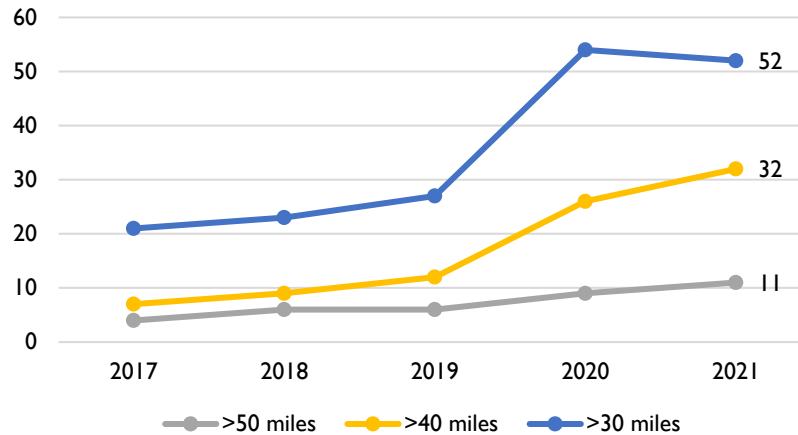
Source: Auditor analysis of City Policy Manual 1.8.1 *Use of City and Personal Vehicles*, 2021 take-home vehicle data from department requests, and Peoplesoft records.

The Number of Employees With Take-Home Vehicles With More Than 30 Mile Commutes Has Increased

CPM 1.8.1 requires that “one-way commute miles of the employee assigned to call-back duty do not exceed 30 miles.” The purpose of this is so employees can respond to after-hour emergencies within 45 minutes.

The number of employees with a one-way commute exceeding 30 miles has been increasing in the past five years. In 2017, 21 employees assigned take-home vehicles had a one-way commute mileage greater than 30 miles. In 2021, there were more than 50, with 11 having commutes greater than 50 miles.

Exhibit 7: Number of Employees With a Greater Than 30-mile Commute Increased in the Past Five Years



Source: List of take-home vehicles (2017-2021) provided by Departments.

Note: From 2017-20, PD reported 66 positions as sharing a take-home vehicle on a rotational basis. One-way commute data was not available for these positions.

In addition, some departments did not have response time targets for employees responding to after-hour emergencies. For others, response time targets exceeded CPM 1.8.1's requirement that employees should be able to respond within 45 minutes. For example, for some Police units the response time was expected to be an hour, while it was not specified for other units. It should be noted, that at least in one instance, the response expectation was less than 45 minutes. In this case it was to align with state requirements around responding to sanitary or storm sewer leaks.

The Police Department Allows Take-Home Use of City Vehicles By Staff Who Do Not Appear to Be on Standby Duty

As noted earlier, the Police Department accounts for the majority of assigned take-home vehicles, as well as the commuting mileage and related costs. In addition, most of the City's take-home vehicle growth within the last five years has been within the Police Department.

Per the City's policy, employees are required to be on standby duty and to respond to after-hour emergencies. However, some units within the Police Department, such as the Traffic Enforcement Unit² do not appear to be on standby duty as defined by the Memorandum of Agreement (MOA) with the

² The Police Department's Traffic Enforcement Unit patrol motorcycles are assigned on a take-home basis to individual employees in the Unit. As of 2021 the Department had 15 positions authorized to take home City patrol motorcycles. These accounted for nearly 170,000 commuting miles. After a 1993 audit report on Police vehicles, the practice of having motorcycles taken home was eliminated by the Department. In a 2010 take-home vehicle audit, we found that the Department had restarted the practice of allowing motorcycles to be taken home. In response to the audit, the practice was once again halted. In 2020, the Department began again to allow motorcycles to be taken home. It is not clear how the justification for allowing motorcycles changed in 2020 from prior years.

Police Officers Association. We found only 19 percent of officers authorized to take home City vehicles were on standby duty. According to the Police Department, some officers may not be on standby as defined in the MOA; however, officers may be called back to respond at any time.

City Policy Allows for Exemptions From the General Guidelines

Per CPM 1.8.1, as part of the annual authorization process, departments are expected to provide the “justification for the take-home use of the vehicle by job function assignment” and “[a]ny policy exemption requests as it relates to response times by specific units and one-way mileage criterion by assignment and annual threshold of call-backs.”

The policy also states:

In the event that the number of annual call-backs does not meet the minimum threshold, the Department shall assess the cost-benefit of providing mileage reimbursements or auto allowances (where possible) to support these position assignments. The results of this assessment shall be included in the Department’s annual request for take-home vehicles and shall be considered by the City Manager’s Office in the final review of the Department’s request.

However, the policy does not provide guidance on how the cost-benefit analysis should be conducted, and at the time of the audit, no department had submitted such an analysis for exemptions to the policy. During the audit, Public Works created a cost-benefit template and requested departments complete these analyses, as necessary.

Clarifying the Policy and Streamlining the Authorization Process Can Help Enforce the Take-Home Vehicle Policy

Under CPM 1.8.1, Public Works is responsible for compiling and summarizing all department requests for take-home vehicles. They are also required to review requests to ensure that they adhere to the policy. However, although Public Works follows up with departments when they see variances from the policy, they have limited enforcement authority.

The Roles and Responsibilities of Departments to Manage Take-Home Vehicles Can Be More Defined

The current process relies on departments to identify which staff would be allowed take-home vehicles in compliance with City policy. The policy does not, however, provide clear guidance on how to track or calculate call-backs and there is wide variation in how that is done. For example, Public Works reported pulling call-back data from PeopleSoft, the City’s Human Resource Management System,

whereas the Fire Department uses a third-party communication app,³ and others just estimated the number of call-backs.

In addition, the policy does not provide clear guidance on how departments should enforce rules around the personal use of vehicles, or as described earlier, how to conduct required cost-benefit analyses for take-home vehicles. Lastly, the policy requires additions to the take-home vehicle list be requested to the City Manager's Office through Public Works, in writing from the Department Director. However, in practice there is currently no standard process to request take-home vehicles outside of the annual authorization process.

The City Manager's Office Approval Process for Exemptions Can Be More Robust

The City policy requires exemption requests to be submitted by departments when employees do not meet the number of call-backs, one-way commute, or response times requirements. These requests, along with the list of employees assigned take-home vehicles, are provided to the City Manager's Office for final review and approval.

Currently, the exemption request includes a list of employees that exceed the one-way commute mile requirements. This does not address exemptions for response times or the required number of call-backs. Additionally, the exemption request does not include information or reasoning behind the request, making it difficult to understand why it is necessary for the individual to have a take-home vehicle.

Streamlining the Annual Authorization Process Could Better Enforce the Policy

The current approval request is paper-based and requires multiple staff to gather, collect, and submit data via email. The data is manually tracked in a spreadsheet document. Public Works reports spending considerable time putting together this data and following up on any discrepancies with department liaisons.

This process can be time intensive, and the manual nature of it can lead to data errors and delays in request approvals. For example:

- There were multiple instances of invalid data inputs, incorrect employee identification numbers, and missing information in the tracking spreadsheet.
- The current list of employees taking home City vehicles did not capture employee changes during the year.

³ According to the Information Technology Department, use of this third-party communication app is not allowable under the City's policy. The Auditor's Office notified the Fire Department and the department planned to take appropriate measures to resolve the issue.

- As previously noted, the number of call-backs are calculated differently across departments. This includes whether the call-backs are specific to individuals or to vehicles that may be shared among a work group.

Public Works Is Exploring an Electronic Approval Process to Streamline Management of Take-Home Vehicles

At the time of the audit, Public Works had begun working with their internal information technology staff to develop an electronic approval process. Such a process could streamline the approvals, better enforce the policy, and alleviate staff time on administrative tasks. Additionally, this could also help enforce additional requirements in the City's policy, such as conducting cost-benefit analyses and documenting exemptions if an employee does not meet policy thresholds.

As Public Works moves to an electronic automated process, roles and responsibilities should be redefined and outlined in the policy to ensure the work is clearly defined and assigned to appropriate staff.

The City Currently Does Not Actively Monitor the Use of Vehicles to Ensure They Are Solely Used for City Business

Under the policy, personal use of City-provided vehicles is prohibited. However, the City does not have processes in place to monitor for potential personal use. Internal Revenue Service (IRS) guidelines require that the City has a way to prove that vehicles are being used in accordance with the rules. This can include internal controls such as signed statements by the employees agreeing to no personal use, or no personal use other than commuting.

Other City policies have controls to monitor for potential personal use. For example:

- The City's *Mobile Communications and Devices* policy (CPM 1.7.4) requires departments to conduct random audits and review bills to monitor usage for proper use and cost effectiveness.
- The City's *Procurement Cards* policy (CPM 5.1.2) requires department directors or procurement card (p-card) coordinators to annually review the utilization of p-cards, and that directors certify that their department is in full compliance with the policy and that there are adequate controls to ensure the proper use of p-cards.

There are no similar policy guidelines to ensure take-home vehicles are used solely for City business.

Telematics Can Be Used to Monitor for Potential Personal Use

Per CPM 1.8.1, the Fleet Network telematics system

...enhance[s] fleet asset management, safety, productivity, service response, reduce emissions etc. The data and information may be used for incident and/or disciplinary investigations.

Telematics can be used to monitor for potential personal use, such as comparing driving data with employees' scheduled days off or creating a geofence within City work locations (pinging departments when a vehicle leaves the area, as applicable).

At the time of the audit, about 60 percent of take-home vehicles had telematics installed.⁴ Also, not all departments we spoke to had access to telematics.

To mitigate risk of potential misuse, the Administration should require departments to monitor take-home vehicles for potential personal use, similar to other City policies. Public Works should also continue to install telematics to all take-home vehicles and give telematics access to the appropriate staff so that departments can more easily monitor vehicles.

Recommendations:

- I: The Administration should clarify and update guidelines for take-home vehicles in City Policy Manual 1.8.1 Use of City and Personal Vehicles to:**
- a) Better define roles and responsibilities of department liaisons, Public Works, and the City Manager's Office,**
 - b) Provide acceptable mechanisms to calculate call-backs, such as required documentation of reported numbers, and**
 - c) Require exemption requests, in instances where employees do not meet all the policy guidelines, to include justification and reasoning for the request, including cost/benefit analyses as appropriate.**

⁴ Public Works reports that covert vehicles are restricted from having telematics installed due to the nature of their work.

- 2: **To streamline the authorization process, Public Works should work with the Information Technology Department to simplify and develop an electronic approval process. This should include standard processes to:**
 - a) **Identify take-home vehicles, which should include departments providing updates to Public Works and the City Manager's Office on a periodic basis to account for changes to the roster of employees approved for take-home vehicles, and**
 - b) **Submit exemption requests for employees that do not meet all the policy requirements.**
- 3: **To monitor for potential personal use:**
 - a) **Public Works should ensure take-home vehicles are equipped with telematics, as appropriate, and relevant department staff have access to telematics.**
 - b) **The Administration should update the policy to require departments to monitor for personal use, such as through random audits to identify off-hour, evening, or weekend use, or requiring department directors to attest that controls are in place to prevent personal use of take-home vehicles.**

Clarification and Better Coordination Are Needed to Ensure Accurate Reporting of Taxable Fringe Benefits

Under federal tax policy, personal commutes or other personal use of a City vehicle may be a taxable fringe benefit. Under IRS guidelines, certain vehicles are exempt, including:

- Marked police, fire, or public safety officer's vehicles
- Unmarked vehicles used by law enforcement if the use is officially authorized
- Any vehicle designed to carry cargo with a loaded gross weight over 14,000 pounds
- Delivery trucks with seating for the driver only, or the driver plus a folding jump seat
- Qualified specialized utility repair trucks, bucket trucks, cement mixers, flatbed trucks, or forklifts

Because most of the City's take-home vehicles are marked and unmarked Police vehicles, most are exempt from taxable fringe benefits. Transport vehicles such as sedans and trucks, however, are generally not exempt.

The Process for Identifying Employees Receiving Taxable Fringe Benefits Should Be Improved

The Finance Department relies on departments to determine whether a vehicle is exempt from taxable fringe benefit calculations. Currently, Finance does not have a process to ensure the accuracy of such determinations.

In 2021, only one employee was reported to have taxable fringe commuting benefits related to an assigned take-home vehicle. However, there were about 40 identified take-home vehicles with descriptions such as “truck pickup” or “SUV” from Fleet’s Assetworks database. It is not clear from those descriptions if these vehicles had been modified such that they met the IRS guidelines for exemption.

There also may have been inconsistencies in the determination of exempt vehicles. In 2020, four vehicles with a description of “vehicle with Light Bar, liftgate and equipment” in Assetworks were reported as exempt from fringe benefit calculations, while another four with the same vehicle description were not listed as exempt.

Lastly, Finance Department appeared to use an incorrect methodology to calculate fringe benefits. Finance included commute mileage for actual call-backs, when call-backs are considered City business and not subject to fringe benefit calculations.

While the number of staff impacted by the IRS reporting guidelines may be small, we recommend that Finance work with Public Works to review the list of take-home vehicles against the IRS guidelines to ensure proper tax treatment, and correct its fringe benefit calculations.

Recommendations:

- 4: To ensure clear expectations for employees who may be subject to taxable fringe benefits, the Administration should update City Policy Manual 1.8.1 Use of City and Personal Vehicles to include IRS guidelines around what vehicles are exempt from fringe benefit calculations.**
- 5: To ensure accuracy of IRS reporting of taxable fringe benefits, the Finance Department should:**
 - a. Work with Public Works to annually review the roster of take-home vehicles against IRS guidelines to identify vehicles subject to taxable fringe benefit reporting, and**
 - b. Revise the calculation of taxable fringe benefits to remove call-back events from the commute mileage.**

Conclusion

City Policy Manual 1.8.1 *Use of City and Personal Vehicles* allows departments to assign a take-home vehicle for after-hour emergency responses by employees on standby duty assignments that require special purpose or police and fire vehicles. Other requirements for being eligible for a take-home vehicle include having a minimum of 24 annual call-backs, having a one-way commute of 30 miles or less, and being able to respond to a call-back within 45 minutes.

Many City employees with City take-home vehicles did not meet the City's eligibility requirements for take-home vehicles as it related to number of call-backs, one-way commute miles, or response times. Clarifying the policy to better define responsibilities for managing take-home vehicles, and streamlining the current manual approval process can help better enforce the policy.

Lastly, commuting in a City vehicle may be a taxable fringe benefit. The Finance Department and Public Works should review the list of take-home vehicles against IRS guidelines, and update the process for identifying and calculating taxable fringe benefits.

RECOMMENDATIONS

Finding 1: Clarifying Policies and Streamlining Processes Can Lead to Better Management of Take-Home Vehicles

Recommendation #1: The Administration should clarify and update guidelines for take-home vehicles in City Policy Manual 1.8.1 *Use of City and Personal Vehicles* to:

- a) Better define roles and responsibilities of department liaisons, Public Works, and the City Manager's Office,
- b) Provide acceptable mechanisms to calculate call-backs, such as required documentation of reported numbers, and
- c) Require exemption requests, in instances where employees do not meet all the policy guidelines, to include justification and reasoning for the request, including cost/benefit analyses as appropriate.

Recommendation #2: To streamline the authorization process, Public Works should work with the Information Technology Department to simplify and develop an electronic approval process. This should include standard processes to:

- a) Identify take-home vehicles, which should include departments providing updates to Public Works and the City Manager's Office on a periodic basis to account for changes to the roster of employees approved for take-home vehicles, and
- b) Submit exemption requests for employees that do not meet all the policy requirements.

Recommendation #3: To monitor for potential personal use:

- a) Public Works should ensure take-home vehicles are equipped with telematics, as appropriate, and relevant department staff have access to telematics.
- b) The Administration should update the policy to require departments to monitor for personal use, such as through random audits to identify off-hour, evening, or weekend use, or requiring department directors to attest that controls are in place to prevent personal use of take-home vehicles.

Recommendation #4: To ensure clear expectations for employees who may be subject to taxable fringe benefits, the Administration should update City Policy Manual 1.8.1 Use of City and Personal Vehicles the Take-Home Policy C.P.M 1.8.1 to include IRS guidelines around what vehicles are exempt from fringe benefit calculations.

Recommendation #5: To ensure accuracy of IRS reporting of taxable fringe benefits, the Finance Department should:

- a) Work with Public Works to annually review the roster of take-home vehicles against IRS guidelines to identify vehicles subject to taxable fringe benefit reporting, and
- b) Revise the calculation of taxable fringe benefits to remove call-back events from the commute mileage.

APPENDIX A

Audit Objective, Scope, and Methodology

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability, and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, effectiveness, and equity of City operations and services.

In accordance with the City Auditor's Fiscal Year (FY) 2021-22 Work Plan, we have completed an audit of the City's take-home vehicles practices. This is a routine audit for compliance with City policy. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective of this audit was to assess current practices for take-home vehicles. To meet our audit objective and understand management controls, we did the following:

- Reviewed the City's *Use of City and Personal Vehicles* policy (CPM 1.8.1) to understand the purpose and requirements for City employees to take home a City vehicle.
- Reviewed other sections of the City Policy Manual to understand how other policies address personal use:
 - *Mobile Communications and Devices* policy (CPM 1.7.4)
 - *Procurement Cards* policy (CPM 5.1.2)
- To understand historical compliance with the City's take-home policy reviewed previous audits on take home vehicles conducted by this office including:
 - *An Audit Of The Department Of General Services/Vehicle Maintenance Division – Police Vehicles, 1993*
 - *Audit of the City's Take-Home Vehicles, 2010*
- To understand the scope of take-home vehicle activity, including trends and growth:
 - Analyzed take-home vehicle data for the past five years to understand trends and growth.
 - Analyzed the number of call-backs and one-way commute mileage reported in the 2021 take-home vehicle list to determine compliance with City policy and calculate the cost of commuting using the Internal Revenue Service standard mileage rate of 56 cents per mile.
- To determine the accuracy of data, cross referenced the following data with the City's Human Resource management system (PeopleSoft):
 - Number of call-backs
 - One-way commute mileages
 - Employee IDs

- Reviewed Telematics to understand capabilities of telematics and determine whether take-home vehicles are equipped with telematics.
- Interviewed staff from the following departments to understand how different departments enforce the take-home policy:
 - Public Works Department
 - Department of Transportation
 - Fire Department
 - Parks, Recreation and Neighborhood Services
 - The Police Department
- Interviewed staff from the cities of Sacramento and San Diego about their take-home vehicle policies.
- Reviewed Internal Revenue Service (IRS) guidelines to understand federal guidance to calculate fringe benefits and exempt vehicles.

We would like to thank the Public Works Department, the Finance Department, and the City Attorney's Office for their time, information, insight, and cooperation during the audit process.

Memorandum

TO: JOE ROIS
CITY AUDITOR

FROM: Matt Cano
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: April 6, 2022

Approved



Date

4/11/2022

**SUBJECT: RESPONSE TO THE CITY AUDITOR'S REPORT TAKE-HOME
VEHICLES: IMPROVED CONTROLS CAN BETTER ENSURE
COMPLIANCE WITH CITY POLICIES**

This memorandum responds to the recently completed report of the City Take-Home Vehicle Program. The Administration appreciates the professionalism of the City Auditor's Office and the time taken to gain insight, understanding, and appreciation for the complexity of the program and the roles of the various stakeholders. The Administration is pleased the City Auditor's report found no major areas of concern and appreciates the City Auditor identifying process improvements to further develop the program. The Administration agrees with the report and looks forward to implementing the recommendations to improve the program and better serve our partner departments. The following are the Administration's responses to each of the Auditor's recommendations.

Finding 1: Clarifying Policies and Streamlining Processes Can Lead to Better Management of Take-Home Vehicles

Recommendation #1: The Administration should clarify and update guidelines for take-home vehicles in the City Policy Manual 1.8.1 *Use of City and Personal Vehicles* to:

- a) Better define roles and responsibilities of department liaisons, Public Works, and the City Manager's Office,
- b) Provide acceptable mechanisms to calculate call-backs, such as required documentation of reported numbers, and
- c) Require exemption requests in instances where employees do not meet all the policy guidelines, to include justification and reasoning for the request, including cost/benefit analyses as appropriate.

Yellow: The Administration agrees with the recommendation and will update City Policy Manual 1.8.1 to align with the recommendations.

Target Date of Completion: April 2023

Recommendation #2: To streamline the authorization process, Public Works should work with the Information Technology Department to simplify and develop an electronic approval process. This should include standard processes to:

- a) Identify take-home vehicle, which should include departments providing updates to Public Works and the City Manager's Office on a periodic basis to account for changes to the roster of employees approved for take-home vehicles, and**
- b) Submit exemption requests for employees that do not meet all policy requirements.**

Yellow: The Administration agrees with the recommendation and, in collaboration with the Business Process Automation team in the Information Technology Department, will develop a process to electronically approve and capture take-home vehicle data to align with recommendations. The approval process will be shared with the City Manager's Office prior to implementing the revised workflows.

Target Date of Completion: January 2023

Recommendation #3: To monitor for potential personal use:

- a) Public Works should ensure take-home vehicles are equipped with telematics, as appropriate, and relevant department staff have access to telematics.**
- b) The Administration should update the policy to require departments to monitor for personal use, such as through random audits to identify off-hour, evening, or weekend use, or requiring department directors to attest that control are in place to prevent personal use of take-home vehicles.**

Yellow: The Administration agrees with the recommendation to equip all take-home vehicles with telematics, where appropriate and pending ongoing funding of the program, and to update policy language to require departments to monitor and report out on personal use of vehicles in the take-home program.

Target Date of Completion: April 2023

Recommendation #4: To ensure clear expectations for employees who may be subject to taxable fringe benefits, the Administration should update City Policy Manual 1.8.1 *Use of City and Personal Vehicles* to include IRS guidelines around what vehicles are exempt from fringe benefit calculation.

Yellow: The Administration agrees with this recommendation. The Finance Department will work with Public Works (Fleet Division) to incorporate Internal Revenue Service (IRS) guidelines around what vehicles are exempt from fringe benefit calculations into the City Policy Manual 1.8.1 Use of City and Personal Vehicles.

Target Date of Completion: April 2023

Recommendation #5: To ensure accuracy of IRS reporting of taxable fringe benefits, the Finance Department should:

- a) **Work with Public Works to annually review the roster of take-home vehicles against IRS guidelines to identify vehicles subject to taxable fringe benefit reporting, and**
- b) **Revise the calculation of taxable fringe benefits to remove call-back events from the commute mileage.**

Green: The Administration agrees with this recommendation. The Finance Department will work with Public Works (Fleet Division) to establish a mechanism for identifying which take-home vehicles are subject to taxable fringe benefit reporting per IRS guidelines. The Finance Department will revise the calculation of taxable fringe benefits to ensure only qualifying trips are subject to taxable fringe benefit reporting.

Target Date of Completion: December 2022

/s/
Matt Cano
Director of Public Works

/s/
Julia H. Cooper
Director of Finance

Questions should be directed to Walter Lin, Deputy Director of Public Works, walter.lin@sanjoseca.gov or (408) 535-1298 or Rick Bruneau, Deputy Director of Finance – Accounting, rick.bruneau@sanjoseca.gov or (408) 535- 8310.