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TONI PRECKWINKLE

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August 25, 2014

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We have conducted an audit of the Fleet Fringe Benefits of Cook County. We conducted our audit in accordance with the [Cook County Auditor Ordinance](#).

Our objectives for this examination were to determine that take home vehicles policies and procedures in regards to fringe benefits exist, are compiled with and establish proper controls. The scope of our work consisted of evaluating and testing compliance with the reporting of fleet fringe benefits for employees assigned take-home vehicles.

Please refer to the following audit report for the results of the audit. The audit report contains five (5) audit findings. The [Executive Summary](#) provides an overview of the audit with the main finding areas.

We express our appreciation for the assistance all department staff extended to our Office during the course of our audit. We have discussed our findings with the Bureau of Administration and would be pleased to discuss our recommendations in greater detail in order to assist with the implementation of our recommendations.

Respectfully Submitted,

Shelly A. Banks, CPA
Cook County Auditor

cc: Carl Byrd, Chief Administrative Officer
Lawrence Wilson, Comptroller
John Schick, Deputy Comptroller
Jerry Pray, Senior Industrial Engineer Bureau of Administration



COOK COUNTY GOVERNMENT
OFFICE OF THE COUNTY AUDITOR

Fleet Fringe Benefits

Internal Audit Report

Report Date:
August 2014

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Frances M. Roybal, Field Auditor IV

EXECUTIVE SUMMARY

The Office of the County Auditor has conducted an audit on fleet fringe benefits for employees who are assigned take-home vehicles.

[Article VIII County Vehicle Policy](#) establishes the Countywide Vehicle Steering Committee and the policies for Fleet Management. The County Vehicle Policy defines take home vehicle use and requires vehicle coordinators to follow all required procedures and maintain the required records and inventory to report to the Vehicle Steering Committee. A take home vehicle may be assigned to employees in a service, management or supervisory position on call 24 hours a day, responsible for providing or supporting emergency services. A vehicle disclosure form shall be used and remain on file in the Department for all "take-home" vehicles." IRS regulations require employees who commute (i.e. travel between a work location and home) in an employer provided vehicle to report such vehicle use as a fringe benefit unless the vehicle qualifies as exempt.

The scope and objectives consisted of evaluating and testing compliance with the reporting of Fleet Fringe Benefits for employees assigned take-home vehicles.

We noted the following findings in regards to the internal control structure:

- The Bureau of Administration (BOA) Fleet Management has draft procedures for take home vehicles, but the procedures have not been finalized and distributed.
- The audit noted several discrepancies with the data reported for take home vehicles between the take home fleet inventory list, the payroll fleet fringe benefit list and the Vehicle Disclosure Authorization Forms.
- An exempt report and support documentation is not maintained to identify vehicles that are exempt from the IRS fleet fringe benefit requirement.
- There is no fringe benefit calculation form to support the determination of the fringe benefit and to assist employees in calculating the commuter rate.
- A Stop Benefit Authorization process is not in place to verify that an employee who no longer qualifies for a fringe benefit has been removed from the payroll system and that the proper justification exists when removing employees from the system.

The findings noted were presented to Bureau of Administration Fleet Management Department and the Comptroller's Office. Please refer to the [Findings](#) section for more detail on the findings with the management responses, corrective action plans and estimated completion dates.

BACKGROUND

Article VIII County Vehicle Policy establishes the Countywide Vehicle Steering Committee and the policies for Fleet Management. Under the direction of the President of the County Board of Commissioners, a Vehicle Steering Committee was established to work closely with the Cook County Board of Finance Committee in regards to Policies and Procedures for Authorized Use of County Vehicles. The Vehicle Steering Committee and enforcement of the County Vehicle Policy falls under the Chief Administrative Officer. The bureau chiefs, department heads, and elected officials are responsible for ensuring that Vehicle Steering Committee policies and procedures are administered and adhered to by employees within their offices.

Bureau of Administration Fleet Management serves as a central agency for coordinating, monitoring and maintaining the inventory records for all Cook County vehicles and assigned drivers. The inventory records are maintained in the Centralized Fleet Management System application on the portal. A Vehicle Coordinator is assigned to each department to ensure that all procedures are in place within the Department.

[Article VIII. County Vehicle Policy](#) defines take home vehicle use and requires vehicle coordinators to follow all required procedures and maintain the required records and inventory to report to the Vehicle Steering Committee.

In regards to take home vehicle use, Article VIII Section 2-672(b) 2 states Vehicle Coordinators shall:

b. File a County vehicle disclosure form for each employee whom the Department Head has authorized for overnight use of County vehicles. To facilitate tax withholding obligations for the vehicle benefits associated with take-home privileges, the Department shall identify all employees assigned a take-home vehicle to the Vehicle Steering Committee. To comply with IRS rules on tax treatment of employee vehicle fringe benefits, regular overnight County vehicle use will have an imputed per diem valuation added to an employee's W-2 form at the end of the year. Vehicles regularly used for emergency or law enforcement purposes are exempt from this requirement. Any vehicles which a department designates as exempt must be reported to the Vehicle Steering Committee.

c. Maintain vehicle inventory data, vehicle maintenance logs, accident logs, vehicle use logs and insurance cards in the form and format established by the Vehicle Steering Committee.

Article VIII Section 2-673(i) 1 states “a County vehicle may be assigned to employees in a service, management or supervisory position on call 24 hours a day, responsible for providing or supporting emergency services. A vehicle disclosure form shall be used and remain on file in the Department for all "take-home" vehicles.”

IRS regulations require employees who commute (i.e. travel between a work location and home) in an employer provided vehicle to report such vehicle use as a fringe benefit unless the vehicle qualifies as exempt.

AUDIT SCOPE AND OBJECTIVES

The scope and objectives consisted of evaluating and testing compliance with the reporting of fleet fringe benefits for employees assigned take-home vehicles. The objectives were the following:

- Determine that take home vehicles policies and procedures in regards to fringe benefits exist, are compiled with and establish the proper controls.
- To verify and confirm that the fringe benefit calculation is in accordance with Internal Revenue Services (IRS) rules and regulations.
- To verify and confirm that all employees who qualify for fringe benefits have been accurately identified.
- To verify and confirm that any employees determined exempt from fringe benefits have been accurately identified with the proper support.

FINDINGS

Finding #1

The Bureau of Administration (BOA) Fleet Management has draft procedures for take home vehicles, but the procedures have not been finalized and distributed. During the audit, it was noted that there is some misunderstanding within the departments on the reporting and requirements for take home vehicles. The audit noted inconsistencies in how data was reported for fleet inventory and for payroll fringe benefits. There also was not a clear understanding on the IRS regulations for calculating fleet fringe benefits and when exceptions are allowed.

Once implemented the procedures for take home vehicles and the fringe benefit requirement will help ensure that there is a clear understanding of the guidelines and responsibilities for management, vehicle coordinators, payroll coordinators and employees assigned take home vehicles.

Recommendation

We recommend the Vehicle Steering Committee implement the procedures for take home vehicles and the fleet fringe benefits requirements. In addition, we recommend that BOA Fleet Management provide training to all departments on the use and reporting of take home vehicles for both inventory and fringe benefits.

Management Response

The Bureau of Administration will develop and implement procedures for take home vehicles and the fleet fringe benefits. The BOA is currently revising the Vehicle Disclosure Authorization form to include a field for the department to identify the start date of the fleet fringe benefit.

The Vehicle Coordinator list is currently being updated for all departments and a meeting will be held in September. During this meeting, coordinators will be trained on the new procedures and forms related to take home vehicles including fleet fringe benefits. The BOA will also develop a checklist for departments to assist them when they are adding drivers for take home vehicles.

Estimated Completion Date

September/October 2014

Finding #2

The audit noted several discrepancies with the data reported for take home vehicles between the take home fleet inventory list, the payroll fleet fringe benefit list and the Vehicle Disclosure Authorization Forms. Discrepancies can occur because there is no reconciliation conducted between the inventory reports, payroll fringe benefits reports and the Vehicle Disclosure Authorization Forms. BOA Fleet Management coordinates the inventory data but not the payroll data; therefore, there is no oversight to reconcile the employees reported for fleet fringe benefits to the employees assigned a take home vehicle. In addition, there was no oversight to ensure that the Vehicle Disclosure Authorization Forms were being submitted on all employees approved for a take home vehicle.

[Article VIII. County Vehicle Policy](#) defines take home vehicle use and requires vehicle coordinators to follow all required procedures and maintain the required records and inventory to report to the Vehicle Steering Committee. Section 2-672(b) 2 states Vehicle Coordinators shall:

b. File a County vehicle disclosure form for each employee whom the Department Head has authorized for overnight use of County vehicles.

c. Maintain vehicle inventory data, vehicle maintenance logs, accident logs, vehicle use logs and insurance cards in the form and format established by the Vehicle Steering Committee.

The Auditor's Office worked with the departments and BOA Fleet Management to address the discrepancies, but without continual administrative oversight take home vehicles may not be appropriately managed to ensure compliance with all regulations.

Recommendation

We recommend that BOA Fleet Management establish a central administrative oversight function to manage the reporting of take home vehicles for inventory and payroll fringe benefits. The oversight function should include a reconciliation process to verify the take home vehicle data reported between inventory, payroll and the Vehicle Disclosure Authorization Forms. The reconciliation process could include the following steps:

- Requesting a Fleet Fringe Benefit Report from payroll on at least a quarterly basis;
- Reconciling the payroll data to the fleet inventory data;
- Verifying Vehicle Disclosure Authorization Forms are maintained for all take home vehicles or any exceptions; and
- Submitting the reconciliation to the Vehicle Coordinators from each department to certify that all reported take home vehicle information is accurate and all employees still qualify for use of a take home vehicle.

Additional controls are recommended in findings 3-5 for the administrative oversight function.

Management Response

The Bureau of Administration will keep a central inventory of all take home vehicles including copies of Vehicle Disclosure Authorization forms. The BOA will request that all departments submit copies of the existing Vehicle Disclosure Authorization forms that they currently have on file. The Auditor provided a copy of their Access database that was developed to perform the reconciliation during the audit. On a quarterly basis, the BOA will request payroll data from the Comptroller in order to reconcile the data with the inventory and Vehicle Disclosure Authorization Forms and make sure there is proper reporting.

Estimated Completion Date

September/October 2014

Finding #3:

An exempt report and support documentation is not maintained to identify vehicles that are exempt from the IRS fleet fringe benefit requirement.

Article VIII. County Vehicle Policy Section 2-672 (b) 2b states that vehicles regularly used for emergency or law enforcement purposes are exempt from the IRS rules on tax treatment of employee vehicle fringe benefits requirement. Any vehicles which a department designates as exempt must be reported to the Vehicle Steering Committee. We were not able to confirm that all vehicles have been properly designated as exempt and reported to the Vehicle Steering Committee.

Recommendation

We recommend that BOA Fleet Management contact the Vehicle Coordinators and request a list with the proper justification of exempt vehicles that meet this requirement. In addition, we recommend that the Vehicle Disclosure Authorization form be expanded with a section for departments to report exempt vehicles with the proper justification and approvals. All exempt vehicles should be supported with a Vehicle Disclosure Authorization form indicating the justification and management approval.

Management Response

The Bureau of Administration is currently revising the Vehicle Disclosure Authorization Form to include a section to identify an employee who is exempt from the fleet fringe benefit as well as a field on the form where the employee and department head can document the justification and reason for the exemption.

Estimated Completion Date

September/October 2014

Finding #4:

There is no fringe benefit calculation form to support the determination of the fringe benefit and to assist employees in calculating the rate. Our review indicated that there were two employees who qualified for a fringe benefit, but were not listed on the fringe benefit payroll report. The employees were detected through reconciling the inventory and the payroll data. The Auditor's Office informed the relevant departments and the fringe benefits have been properly set up.

IRS Rules state the requirements for fringe benefit for take home vehicles. The County's fringe benefit calculation is based on the commuter rate rule, which indicates that the value of a vehicle provided to an employee for commuting use is determined by multiplying each one-way commute (home to work/work to home) by \$1.50 for a total of \$30 per pay-period (2 x \$1.50 x 10 days).

Recommendation

We recommend that the Vehicle Disclosure Authorization Form be expanded to include a section for the departments to calculate the fringe benefit amount for employees who qualify for a fringe benefit. The form would show how the commuter rate is calculated and provide supporting documentation for the fringe benefit. We also recommend that as part of the reconciliation process BOA Fleet Management verify the data on the forms with the data reported in the Payroll System to ensure that the fringe benefit is properly set up.

Management Response

The Bureau of Administration is currently revising the Vehicle Disclosure Authorization Form to include a section for the department/employee to show how the fleet fringe commuter rate is calculated as well as the ability for the department/employee to calculate the biweekly fringe benefit for the employee.

Estimated Completion Date
September/October 2014

Finding #5:

A Stop Benefit Authorization process is not in place to verify that an employee who no longer qualifies for a fringe benefit has been removed from the payroll system and that the proper justification exists when removing employees from the system. The audit verified the accuracy of the existing stop benefits in the payroll system, and as a result one employee who no longer qualified for a fringe benefit was still being charged for the benefit. The Auditor's Office informed the relevant department and the fringe benefit was stopped in the payroll system.

Recommendation

We recommend that a Stop Benefit Authorization process be created for employees who no longer qualify for a fringe benefit. A formal process would provide support documentation with justification for the stop in the payroll system. The Vehicle Disclosure Authorization Form could be expanded to include a section to capture when the fringe benefit no longer applies with the justification and stop date.

Management Response

The Bureau of Administration is currently revising the Vehicle Disclosure Authorization Form to include a section for the department to document the date that the fleet fringe benefit should terminate or stop.

Estimated Completion Date
September/October 2014