



**Office of Inspector General
City of New Orleans**

**Follow-Up Report: New Orleans Aviation Board Vehicle Fleet
Control**

OIG-A&R-11FOL001

**E. R. Quatrevaux
Inspector General**

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Executive Summary..... 1

I. Objectives, Scope and Methodology..... 2

II. The New Orleans Aviation Board (NOAB) Vehicle Fleet Follow-Up..... 3

- Follow-Up #1: The NOAB did not have effective operating internal controls over fuel dispensing and fuel record keeping.
- Follow-Up #2: The NOAB did not properly record and report the personal use of the take-home vehicles in the employee’s regular pay and the related payroll taxes.
- Follow-Up #3: The proper method was used to prepare the quarterly fringe benefit calculation but could not be verified.
- Follow-Up #4: All Employees assigned take-home vehicles did not keep comprehensive travel records consistent with the Internal Revenue Service rules and regulations.
- Follow-Up #5: The NOAB employees assigned take-home vehicles appeared to be on call 24-hours a day in compliance with Policy Memorandum 5(R).
- Follow-Up #6: The NOAB employees assigned take-home vehicles appeared to be on call 24-hours a day which complied with Policy Memorandum 5(R).
- Follow-Up #7: The NOAB purchased but did not implement a fuel monitoring and maintenance tracking system.
- Follow-Up #8: The NOAB did not comply with the quarterly physical inventory counts mandated by Policy Memorandum 5(R) and did not have the controls in place surrounding disposal of fleet vehicles.
- Follow-up #9: The NOAB did not perform periodic checks on employee driving records other than at the date of hire and date of promotion.

EXECUTIVE SUMMARY

In August 2009, the Office of Inspector General (OIG) issued a report on the cost and management of take-home vehicles of NOAB, hereafter referred to as the “2009 Report.” The response received from the NOAB (“NOAB Response”), dated August 26, 2009, Patricia Malone, Interim Director of Aviation, stated that management is “implementing recommendations to enhance business practices accordingly.” The OIG, as a matter of policy, conducted a follow-up to that report to determine the status of NOAB’s compliance with the responses to the nine recommendations in the 2009 report.

The follow-up revealed that NOAB only implemented two of the auditor’s nine recommendations in the 2009 Report.

The NOAB did not have effective internal controls over fuel dispensing and fuel record keeping. The NOAB did not properly record and report the personal use of the take-home vehicles in the employee’s regular pay and related payroll taxes, nor was the proper method¹ used to prepare the quarterly calculation to determine the fringe benefit. Employees assigned a take-home vehicle did not keep comprehensive travel records consistent with the Internal Revenue Service rules and regulations.

The NOAB purchased, but did not implement, a fuel monitoring and maintenance tracking system. The NOAB did not comply with the quarterly physical inventory mandated by Policy Memorandum 5(R)² and did not have controls in place to dispose of fleet vehicles.

Although NOAB significantly decreased the amount of take-home vehicles to comply with Policy Memorandum 5(R), no actions had been taken to implement the remaining seven recommendations.

The auditors will perform a second follow-up on these recommendations in 2012.

¹ The Lease Value Rule, established in Internal Revenue Service Publication 15-B, is a formula used to determine the amount of the fringe benefit received by employees with a take-home vehicle. The City’s Policy Memorandum 5(R) recommends this method.

² Policy Memorandum 5(R) was previously referred to as “CAO Policy 5(R) in the 2009 report.”

I.OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the follow-up report was to determine whether the auditor's recommendations from the August 31, 2009 report were implemented and operating effectively.

The scope of this review was limited to the NOAB's responses to the nine findings and recommendations in the August 2009 report.

The methodology was developed in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book). The auditor's Methodology included:

- Conducting interviews with personnel to gain an understanding of the current processes and controls in place in the following areas contained in the 2009 Report:
 - Fuel Use and Monitoring;
 - Take-home Vehicle Personal Use Charges;
 - Lack of Documentation of Personal Use;
 - Take-home Criteria, Assignment and Monitoring;
 - Cost of Vehicle Maintenance and Management;
 - Vehicles no longer in service;
 - Driver's License Checks;
 - Abuse or Misuse of Vehicles;
 - Storage of Vehicles;
 - Non-Employee Drivers.
- Evaluating the NOAB 2009 Report responses to determine if the recommendations were adopted and effectively implemented.

Computer-processed data was provided and relied on, which detailed information on vehicle inventory and fixed asset disposals for the period of the follow-up. Although a formal reliability assessment of the computer-processed data was not performed, the auditors determined that hard copy documents reviewed were reasonable and generally agreed with the information contained in the computer-processed data. No errors were found that would preclude the auditors from using the computer-processed data to meet the review objectives or that would change the conclusions of this report.

II. VEHICLE FLEET CONTROL FOLLOW-UP

Fuel Use and Monitoring

Finding #1: “The OIG found a lack of internal controls over the fuel dispensing and fuel record keeping system. The fuel system is completed on the honor system and is not being followed by the employees or being reviewed by management.”

Recommendation #1: “The NOAB should conduct research and identify a viable system of fuel dispensing and record keeping, in order to improve documentation and monitoring of fuel needs and activities.”

NOAB Response #1: “The recommended research is currently underway.”

OIG Follow-up #1: The NOAB did not have an effective system of fuel dispensing and recording as promised in their response to the original report at the time of the follow-up.

Take-Home Personal Use Charge

Finding #2: “For all pay periods commencing with the third quarter of 2005 through the present, the NOAB has been not correctly reporting the regular pay and the related payroll taxes for all employees assigned a take-home vehicle.”

Recommendation #2: “The NOAB should quantify the current take-home use cost and personal use benefit for previous and current employees assigned a take-home vehicle for the period commencing with the third quarter of 2005 through the present. For those employees where the value of the fringe benefit exceeds the take-home vehicle use charge, the fringe benefit should be added to the regular wages of the employee. Any applicable payroll taxes should be computed, including Federal income, Social Security, and Medicare taxes.”

NOAB Response #2: “The Airport acknowledges this OIG recommendation. The City of New Orleans administers this process, and it likewise administers the computation of fringe benefits and the issuance of W-2’s for all airport employees. The Airport will forward to relevant City officials a request to coordinate compliance in this regard.”

OIG Follow-up #2: The NOAB did not properly and completely record and report the personal use of the take-home vehicles in the employee’s regular pay and the related payroll taxes.³

³ Auditors found that the period of January through September was used to calculate the yearly fringe benefit on each W-2 for 2010. Because the fourth quarter was excluded from the calculation, the personal use fringe benefit was neither complete nor properly recorded on the W-2 (all payroll taxes should be computed, including Federal income, social security and Medicare taxes).

Fuel Use and Monitoring

Finding #3: “In Circular Memorandum No. 36-86 the CAO directed that the Lease Value Rule be utilized to prepare a quarterly calculation to determine the amount of the fringe benefit, if any, that should be reported as regular pay on the employees' W-2. Per Treasury Regulation Sub-Section 1.61-21, the Annual Lease Value Rule does not include the fair market value of the fuel provided by the NOAB to its employees who are assigned a take-home vehicle. Therefore, the fuel should be valued separately and added to the calculation to correctly quantify the take home use cost and personal use benefit for each employee assigned a take-home vehicle.”

Recommendation #3: “The NOAB should quantify the fringe benefit received by employees as a result of the NOAB providing fuel at no charge to these employees. The value of the fuel is a separate fringe benefit to be added in addition to any benefit calculated under the Annual Lease Value calculation. For those employees where the value of the fringe benefit from the fuel plus the fringe benefit under the Annual Lease Value method exceeds the take-home vehicle use charge the fringe benefit should be added to the regular wages of the employee. Any applicable payroll taxes should be computed, including Federal income, Social Security, and Medicare taxes.”

NOAB Response #3: “The Airport acknowledges this OIG recommendation. The City of New Orleans administers this process, and it likewise administers the computation of fringe benefits and the issuance of W-2's for all airport employees. The Airport will forward to relevant City officials a request to coordinate compliance in this regard.”

OIG Follow-up #3: The Lease Value Rule was used to prepare the quarterly calculations. The auditor could not verify the calculations because NOAB did not maintain a complete set of fuel and mileage logs for the three employees assigned take-home vehicles.⁴

Lack of Documentation of Personal Use

Finding #4: “The vehicle policy issued by the CAO No. 5(R), dated March 18, 2002, and revised on April 28, 2009, provides that the “*User employees shall keep a record of any personal use, as personal use of a city vehicle is a taxable fringe benefit.*” The OIG interviewed management personnel during the course of field work and the OIG was informed that the NOAB was not in compliance with the record keeping requirements of CAO No. 5(R).”

Recommendation #4: “Record keeping requirements are an important issue for take-home vehicle users. According to the Internal Revenue Service, if the employee doesn't do their own substantiation or meet the requirements, the employee is presumed to have driven the vehicle for their own use and that value will be considered personal.

⁴ Auditors found that the period of January through September was used to calculate the yearly fringe benefit on each W-2 for 2010. Because the fourth quarter (October through December) was excluded from the calculation, the personal use fringe benefit was neither complete nor properly recorded on the W-2 (all payroll taxes should be computed, including Federal income, social security and Medicare taxes).

Personal use is taxable and should be included on the employee's W-2. The OIG recommends that the NOAB require all employees who are assigned a take-home vehicle to keep accurate and comprehensive travel records consistent with the Internal Revenue Service rules and regulations."

NOAB Response #4: "The Airport is currently requiring all Airport employees to complete records received from the City of New Orleans in August 2009. Said records maintain accurate and comprehensive travel records consistent with IRS rules and regulations."

OIG Follow-up #4: NOAB did not maintain a complete set of fuel and mileage logs for the three employees assigned take-home vehicles.

Take Home Criteria, Assignment and Monitoring

Finding #5: "The NOAB follows these policies for management of their passenger type vehicles: PPM #19, PPM #22 and CAO No. 5(R), issued on March 18, 2002. None of these three policies address take-home use criteria and assignment...."

Recommendation #5: "The NOAB should consider the propriety of the assignment for each employee assigned a take-home vehicle and make a determination as to whether it meets the criteria as outlined in the newly revised CAO No. 5(R).

NOAB Response #5: "The Airport confirms that it uses the criteria outlined in CAO No. 5 (R) when making a determination regarding the assignment of each take-home vehicle."

OIG Follow-up #5: The auditors noted three authorized individuals with take-home vehicles in 2011, a decrease of 86% from 2009. The NOAB employees assigned take-home vehicles appeared to be on call 24-hours in compliance with Policy Memorandum 5(R).

Finding #6: "Based on the OIG analysis of the NOAB take-home vehicle assignments, there is no documentation to support the justification for the take-home assignments. If the vehicles are being driven home when the only apparent reason is to provide a fringe benefit to employees, there may be a conflict with the Louisiana State Constitution."

Recommendation #6: "The Louisiana Constitution (1974) Article VII Section 14 contains the constitutional standard for the lawful use of public funds and property. Accordingly, the OIG recommends that NOAB seek a legal opinion regarding the legality⁵ of all take-home vehicle assignments for every NOAB employee assigned a vehicle."

NOAB Response #6: "The Airport confirms that it uses the criteria outlined in CAO No. 5 (R) when making a determination regarding the assignment of each take-home vehicle. The Airport will seek a legal opinion if an issue of legality arises."

⁵ The Louisiana Constitution (1974) Article VII Section 14 contains the constitutional standard for the lawful use of public funds and property.

OIG Follow-up #6: The auditors noted only three authorized individuals had take-home vehicles in 2011, a decrease of 86% from 2009. The NOAB employees assigned take-home vehicles appeared to be on call 24-hours and in compliance with Policy Memorandum 5(R).

Finding #7: “The NOAB's accounting and record keeping system is unable to track maintenance, repairs, insurance and fuel expense by vehicle. Therefore, management is unable to effectively gather data to assist in management of the vehicle fleet. Further, as a result, the OIG was unable to analyze specific or overall expenses relative to the vehicle fleet.”

Recommendation #7: “The OIG recommends that the NOAB develop the ability to analyze or track expenses associated with all vehicles, including take-home vehicles. Cost outlay considerations are an important aspect of managing these assets. Effective and efficient management of these critical assets drives management to have value added tools to enhance operational readiness. A best business practice for the NOAB would be to transition to an automated vehicle management system. An automated system will provide management with the ability to track any and all parts, repairs, maintenance, provide scheduled preventative maintenance, display down times, and other matters that pertain to service vehicles which would greatly enhance the management of these assets. Institutional management of the vehicle fleet will minimize maintenance cost while increasing asset life, predict assets failures, improve productivity, reduce costly down time, minimize investment inventory and improve operational readiness.”

NOAB Response #7: “The Airport acknowledges the OIG recommendation. It is currently researching cost efficient options to analyze or track expenses associated with all vehicles.”

OIG Follow-up #7: NOAB purchased but had not taken action to implement its PetroVend Software, a fuel monitoring and maintenance tracking system.

Vehicles no longer in service

Finding #8: “One of the vehicles in the sample size of 20 vehicles was observed to be a “junked” vehicle. As part of the OIG request for documents, we were provided a schedule of "junked" vehicles which were included as NOAB fixed assets on their vehicle reports. The "junked" vehicle report lists a total of nine vehicles that are no longer in service but are still on the NOAB's vehicle report. Maintaining these “junked” vehicles in inventory causes the NOAB books, records and financial statements to be misstated.

Recommendation #8: “CAO No. 5(R) was recently revised on April 28, 2009. The revised policy amends the departmental vehicle inventory schedule from semi-annual to quarterly in Section 5(C). Accordingly, the NOAB should conduct a timely quarterly physical inventory count of all vehicles and equipment and submit to EMD in accordance with the new policy. Vehicles and equipment that are deemed to be “junked” and no longer useful should be removed from the fixed asset inventory.”

“NOAB should ensure that adjustments are entered on a timely basis into the financial accounting system, inventory valuation methods are consistently used, and proper disposal procedures are followed. The NOAB should ensure that the vehicles that are no longer in service are not still being insured. Failure to remove "junked" vehicles from the NOAB books and records can result in the misstatement of NOAB financial statements.”

NOAB Response #8: “It is the Airport's intention to implement in the near future a process to conduct a timely quarterly physical inventory count of all vehicles and equipment and submit the same to the Airport's equivalent of EMD. The Airport is likewise consulting with the Louisiana Office of Motor Vehicles to properly remove and discontinue insurance of junked vehicles.”

OIG Follow-up #8: The NOAB did not comply with the quarterly physical inventory mandated by Policy Memorandum 5(R) and did not have the controls in place surrounding the vehicle fleet disposals. A random inspection of vehicles found that the NOAB did not perform inventory counts or track the location or status of those vehicles included in inventory.

Note: “Junked vehicles” remained on site but were not properly monitored or tracked. No formal policies were in place relating to the retirement of vehicles.

Driver's License Checks

Finding #9: “The NOAB's procedure to only check driving records at the time of hire and at the time of promotion leads to the risk that an employee could go years with no promotion and, therefore, the employee's driving record would remain unchecked. “

Recommendation #9: “The NOAB should revise the policy regarding driver's license checks of employees authorized to operate an NOAB vehicle to include scheduled periodic checks of all employees to ensure that they have adequate oversight of employee licensing and driving records.

NOAB Response #9: “The Airport acknowledges this OIG recommendation.”

OIG Follow-up #9: The auditors noted driving records checks were performed on employees with take-home vehicles at the time of hire. Additional driving record checks were not performed until after the auditors met with management to discuss our follow-up procedures.