



Clerk of the Circuit Court Board of County Commissioners

Marion County



Internal Audit Division

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MEMORANDUM

TO: Patrick G. Howard, County Administrator

FROM: David R. Ellspermann, Clerk of the Circuit Court

DATE: January 3, 2003

RE: PERSONAL USE OF COUNTY VEHICLES REVIEW

We performed a special review of specific personal use of a County vehicle by an employee in July 2002. The Internal Auditor has now completed a review of the general process and routine procedures followed by the County to track and report all employee assignment and personal usage of County vehicles as related to taxation.

This has been a recurring issue for the past few years, as described below, and it seems to be an opportune time to make any agreed upon improvements.

Employee Use of Vehicles for Personal Commuting

Marion County provides vehicles to most departments to accomplish necessary and usual County business and activities. The vehicles are justified as part of budget process before BCC approval. As stated in the Policies and Practices Employee Manual (Second edition, 1993), "vehicles and property will be used for official County business only" and "employees who are assigned a County vehicle and operate the vehicle to and from work will be responsible for the tax liability for the value of this benefit." It is understood therefore that any personal use is for commuting to and from home and work.

Some executive employees are assigned a specific County vehicle which can be routinely used for commuting, while other employees use a department vehicle as needed. For example, an employee will perform a service call on weekends or after hours using a County vehicle, will then take the vehicle home after use and return the vehicle to place of work on the following work day.

The County is required by IRS regulations (1985) to report as taxable income any employee's personal use of County vehicles. Several years ago, the County opted to use an approved reporting alternative called the "commuting method." The employee is presumed to have benefitted in the amount of \$3.00 per day (or

\$1.50 per one way) for commuting between the residence and place of work. The employee is accordingly taxed on the total benefit. The County has elected to withhold Social Security and Medicare taxes from the employee's wages, but each employee is responsible for paying the federal income taxes.

Procedures for Recording and Reporting Employee Use

To accomplish the reporting of employee personal use, in the current and previous years, it has been the responsibility of County Administration to devise a method to ensure such employee personal use of County vehicles is properly reported for taxation purposes. Some years ago, the then-County Administrator delegated this responsibility to the Human Resources Department. While there have been periodic attempts to spread the taxation throughout a year, generally the reporting has been done once a year at the end of the year. This created some problems for some employees because the taxes for the year were deducted from one (and at most two) paycheck.

This previous method involved the Human Resources Director informing (by memorandum) the other County department directors of the need to report each employee's personal use of vehicles. The directors were to ensure that each employee sign the authorized reporting memo (devised by Finance) verifying the number of commuter days of use of a County vehicle. The departments would collect the forms and forward to Human Resources, who would then forward to Finance.

In the past there have been some issues as to whether Human Resources, in particular, and the County in general, should have responsibility for this area. Instead it has been suggested that this is actually a payroll issue and that Finance therefore is the proper agency. During 2002, it seems that Human Resources has not been as involved as in previous years.

Difficulties in Present System

One difficulty has been obtaining timely information on employee vehicle usage that allows more reporting and taxation during the year. This has resulted in employees being compelled to have their wages reduced for the whole amount of taxes, usually out of one paycheck.

Because reporting has often occurred in the last month of a year, there is built-in under reporting. Any employee terminating employment prior to the reporting does not get charged for his or her personal commuting vehicle usage.

The system does not have built-in supervisory or higher level review and oversight. There is no apparent review of the information submitted by the employees in order to verify accuracy. This process seems to be handled as a clerical duty. Review and verification is not required by a supervisor, department director or Human Resources Department.

Conclusion

The reporting of Personal Use of County Vehicles is an important matter which has not received the appropriate and required attention. This condition should be improved as soon as practicable. This is primarily a personnel issue because County personnel reporting can only be enforced by responsible County management and supervisory staff. We believe that this has only a minimal relationship to Finance payroll responsibilities because of the income reporting and tax deduction aspects. This is not very different from present management duties, such as ensuring accuracy of payroll time reporting, verifying that purchasing cards are used correctly and assuring that supervised employees comply with other purchasing policies.

Suggestions for Improvements

To improve the controls and administrative procedures pertaining to Personal Use of County Vehicles, we suggest the following, which are not all-inclusive, for County Administrator consideration:

- County Administration should issue clearly defined directions to appropriate department directors and other key County personnel to accomplish the requirements of this issue. County Administration also should designate a person responsible for ensuring that all requirements are met, along with appropriate authority.
- The more preferable reporting and taxation method of employee use is through the bi-weekly payroll reporting process. Employees should be instructed to report the actual number of days of use in each payroll period. Payroll clerks would enter this amount on their revised payroll reporting forms. Executive employees could be included in this process and would report actual usage in the bi-weekly period.
- Supervisors who assign employees to be “on call” with a vehicle must ensure that the number of days reported are accurate. This should coincide well with the payroll reporting of on-call time.
- If the present method continues to be used, reporting should be done monthly, not bi-annually. Each department director should ensure that the submitted reporting forms are timely collected and sent to the designated employee suggested above. That employee must ensure timely receipt of the forms from the departments and timely submission to Finance for income recording and taxation purposes. Management must ensure that each pertinent employee receives or has available the required reporting form. Management must also stress to employees the requirement for timely reporting and devise internal procedures to ensure and enforce compliance.
- If the present method continues to be used, executive employees should calculate their maximum expected commuting usage at the beginning of each year. The pro-rated amount would be included monthly. This amount could be adjusted later in the year, perhaps in the last quarter, for the actual and re-estimated annual usage. A final reporting form for the year should still be filed.
- Enhance employee notification process of this policy. This could be done by informing

employees who use County vehicles of their reporting responsibilities and potential tax liabilities for personal usage. Attached is an employee notification form, developed by Finance, that could be used as part of this notification. As shown, this form would require the employee to sign that he or she had been given the opportunity to review and ask questions about the policy.

- To further enhance employee notification, mileage logs in County vehicles could include a section or heading that notifies users that commuting usage will be taxed and must be reported.

Attachment

c: Janet Y. Tutt, Deputy County Administrator
Jim Rodgers, Human Resources Director
John W. Garri, Finance Director

ATTACHMENT
Proposed Notification Form

TAX TREATMENT OF PERSONAL USE OF COUNTY VEHICLES

Internal Revenue Service regulations issued in 1985 require that certain non-cash fringe benefits provided to employees be treated as taxable income. One of these non-cash benefits is the value of non-business use of a County vehicle (i.e., traveling to and from home to work).

This means you are responsible for the Federal Income, Social Security, and Medicare taxes on the cash value of this benefit. **The County has elected to withhold Social Security and Medicare Taxes Only.**

The undersigned hereby acknowledges being given the opportunity to review this policy and an opportunity to ask questions concerning this policy.

Employee Signature

Date

Print Name