

TAKE-HOME VEHICLE AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

06.30.2025



Contents:

| | |
|--|----|
| A. Overview..... | 3 |
| B. Action Plan and Target Completion Dates..... | 4 |
| C. Background | 5 |
| D. Objective, Scope and Methodology | 8 |
| E. Observations, Recommendations, & Management Responses Matrix..... | 9 |
| Appendix 1: Definitions of Priority Rankings and Value-Added Categories..... | 12 |

Distribution List:

| | |
|------------------|--|
| For action: | Afshin Bokaei, Deputy Director of Finance Jeffrey Brooks, Fire Chief Manuel Cid, Police Chief Theresa Clark, Accounting Manager Sevada Hambarsumian, Mechanical Maintenance Superintendent Daniel Hernandez, Director of Public Works Antonio Ligon, Fiscal Operations Manager Scott Mellon, General Manager of Glendale Water & Power John Takhtalian, Assistant City Manager/Interim Director of Finance |
| For information: | Michael Garcia, City Attorney Roubik Golanian, City Manager Shu-Jun Li, Assistant Director of Finance Audit Committee City Council |

Acknowledgment

We would like to thank staff from Management Services, Finance, Public Works, Glendale Police Department, Glendale Fire Department, and Glendale Water & Power for the support and assistance provided throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Daniel Mitchell, Internal Auditor, or Natalie Minami-Valdivia, Principle Internal Auditor at InternalAudit@glendaleca.gov

This report is also available online at <https://www.glendaleca.gov>

A. Overview

Key Outcomes

The City of Glendale (City) allows certain employees to take home a vehicle to respond to emergencies after normal working hours. Through a review of City policy, detail testing, and discussions with departments, Internal Audit identified three improvement opportunities related to compliance, efficiency, and risk reduction: 1) Implement controls for City Manager's Office approval of annual take-home vehicle requests and City Manager approval of executive auto allowances; 2) Enhance processes to ensure more accurate financial records and the responsible management of City assets; 3) Implement controls to comply with Internal Revenue Services (IRS) safe harbor and fringe benefit guidelines.

Impact Dashboard

This table summarizes the applicable value-added categories (total 8) for the three recommendations based on their priority rankings.¹

| | Value-Added Categories | | | |
|-------------------------------|------------------------|-------------|------------|----------------|
| | Compliance | Cost Saving | Efficiency | Risk Reduction |
| Priority 1 2 | 2 | 0 | 1 | 2 |
| Priority 2 1 | 1 | 0 | 1 | 1 |
| Priority 3 0 | 0 | 0 | 0 | 0 |

¹ Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

| Ref. | Management Action Plan | Completion Date |
|-------------------|--|-----------------|
| Priority 1 | | |
| 1. | Implement controls to ensure that Department Heads submit annual take-home vehicle requests to the City Manager's Office for approval as well as receive City Manager approval for executive auto allowance benefits. <i>Value added:</i> <u>Compliance</u> , <u>Risk Reduction</u> | 9/30/2025 |
| 2. | Enhance existing processes to further ensure the accuracy of financial records and the responsible stewardship of City assets. <i>Value added:</i> <u>Compliance</u> , <u>Efficiency</u> , <u>Risk Reduction</u> | 9/30/2025 |
| Priority 2 | | |
| 3. | Implement controls to ensure compliance with IRS safe harbor and fringe benefit guidelines. <i>Value added:</i> <u>Compliance</u> , <u>Efficiency</u> , <u>Risk Reduction</u> | 12/31/2025 |

C. Background

Employee Take-Home Vehicle Assignments

The City's take-home vehicle program is governed by several documents that provide guidelines, employee expectations, and controls necessary to ensure it operates as intended. These documents include the City Administrative Policy Manual (APM) 6-4 City Vehicles, Executive Compensation and Benefits Resolution, and Glendale Police Officers' Association Memorandum of Understanding.

- **APM 6-4:** This policy mandates that the City Manager's Office annually approve take-home vehicles based on operational necessity, emergency response needs, authorized number of departmental take-home vehicles, associated costs, and commute distance. It also grants the City Manager authority to approve either an assigned vehicle or auto allowance for Executive Staff.
- **Executive Compensation and Benefits Resolution:** This resolution outlines that "The Director of Finance shall pay a monthly automobile allowance to certain Executive employees in amounts authorized by the City Manager. The current authorized allowance for Executives is \$490 per month. The City Manager may authorize certain Executive employees to take City vehicles home in the furtherance of the performance of their job duties."
- **Glendale Police Officers' Association Memorandum of Understanding:** This memorandum defines conditions that must be met for Glendale Police Officers' to receive motorcycle take-home privilege, one of which states that the employee must reside within a sixty-mile radius of the Civic Center Garage.

Fleet Management

The Public Works Department's Fleet Services Division is responsible for the maintenance and repair of the City's vehicles to ensure the safety and longevity of these assets. Based on the fleet management system, the City owns a fleet of roughly 1,100 vehicles and equipment, including transport, special purpose, and police and fire vehicles. The vehicles are maintained in four garages within the City. Staff are also responsible for compliance with all fleet-related federal, state, county, and local regulations, policies, and mandates.

The City assigns take-home vehicles to certain City employees who are required to respond to after-hour emergencies. Individual departments oversee the assignment of and use of each vehicle. Currently, each City department has the authority to assign vehicles for take-home use and there is no centralized authority approving these assignments. As of December 31, 2024, the City had 82 vehicles assigned for take-home use that are assigned to individual employees.

Take-Home Vehicle Assignments by Department

Exhibit 1 identifies the total number of City vehicles detailing the number of take-home vehicles, total number of vehicles, and the take-home vehicle allocation for those departments with take-home vehicles assignments.

Exhibit 1
Number of Take-Home Vehicles by City Department as of December 31, 2024

| Department | Number of Take-Home Vehicles | Total Number of Vehicles | Percent of Take-Home Vehicles |
|----------------------------|------------------------------|--------------------------|-------------------------------|
| Glendale Police Department | 62 | 271 | 23% |
| Glendale Fire Department | 12 | 102 | 12% |
| Glendale Water & Power | 8 | 237 | 3% |
| Other* | 0 | 479 | 0% |
| Total | 82 | 1,089 | 8% |

*Other consists of Public Works, Human Resources, Information Technology, Library, Management Services, and Community Services & Parks Departments.

Glendale Police Department

As **Exhibit 1** illustrates, the Glendale Police Department (GPD) employees drive 62 (76%) of the 82 City take-home vehicles.

According to GPD policy, department vehicles may be assigned to individual members of the GPD at the discretion of the Police Chief. The Police Chief will assign patrol and unmarked vehicles based on a determination of operational efficiency, economic impact to the GPD, requirements for tactical deployments, and other considerations.

Glendale Fire Department

Glendale Fire Department (GFD) has 12 take-home vehicles assigned to employees which are used to support the GFD's mission of protecting Glendale residents from fire and natural disasters by helping prevent fires, helping residents prepare for disasters, responding quickly to emergencies, and helping residents return home safely.

According to GFD policy, the Fire Chief may, with the approval of the City Manager, designate certain employees to have an assigned city vehicle for their use. The policy clarifies that employees assigned a vehicle must be ones who respond to an emergency where speed of the response is essential, and lights and sirens are used in the response.

Glendale Department of Water & Power

Glendale Water & Power (GWP) has a take-home fleet consisting of eight vehicles. This consists of three Electric Division vehicles, two Water Distribution vehicles, and three Water Operations vehicles. The employees assigned an authorized take-home vehicle are considered on standby after usual business hours and are expected to be able to respond to City emergencies, such as water leaks and disrupted electrical lines. Each year, during tax preparation, the GWP Office Services Supervisor compiles a list of employees assigned take-home vehicles and submits a request for approval from the General Manager of GWP for continued use in the following year. This request form is reviewed and signed by the GWP General Manager before the details are submitted to Payroll.

Take-Home Vehicle Inventory

APM 6-2 Personal Property Fixed Assets Program states that each division is responsible for inventorying their personal property and reconciling fixed assets to the financial accounting system biannually. The Finance Department is then responsible for performing an annual physical inventory and other annual control methods to protect the City's fixed assets.

Additionally, when the City disposes of a take-home vehicle, Fleet Services completes a Consignment Form that lists all equipment to be sold on consignment with a supporting Form O-25 for the Disposal of Fixed Assets for each item and submits it to the Finance Department – Purchasing Division for processing. The Purchasing Division will send this form to a contractor approved to sell City vehicles and/or equipment approved for disposal on consignment who will arrange a pickup with Fleet Services. After the sale, the contractor remits a check and supporting documentation to the Finance Department for deposit and removal from the City's fixed asset system, if applicable. As required by City Charter article XXIII Section 14, all money received by any City officers or departments for official duties, all money accruing to the City, and all money legally or Charter mandated for the treasury must be deposited daily.

Taxable Benefits of Take-Home Vehicles

The City is responsible for accurately reporting employees' income, including taxable fringe benefits such as personal vehicle use, to the IRS on an employee's W-2 form. During the period January 1, 2024 through December 31, 2024, all take-home vehicles were considered qualified nonpersonal use vehicles and as such did not have any tax implications for the City to report.

Program Costs

The take-home vehicle program incurs costs related to vehicle repairs, maintenance, and fuel. Although these vehicles have slightly higher costs than non-take-home vehicles, the operational necessity for timely after-hours emergency response outlined in APM 6-4 outweighs the additional expense. On average, take-home vehicles are driven 15,000 miles a year and costs the City \$7,000 annually in repairs, maintenance, and fuel per

vehicle. When considering employees with commutes over 30 miles and 60 miles from the City Civic Center, it was determined that the longer commute costs the City an additional \$120,000 and \$6,000 respectively. This makes up 0.4% and 0.02% of the City's annual Fleet Management Fund budget.

D. Objective, Scope and Methodology

The objective of this audit was to determine whether adequate controls are in place to ensure that the City's take-home vehicles are being managed and utilized appropriately.

The scope of the audit covered 82 City take-home vehicles assigned to employees during the period of January 1, 2024 through December 31, 2024 (CY2024). This audit excluded 10 specialized emergency standby vehicles assigned to 14 employees on a rotational basis.

To accomplish the audit objective, Internal Audit performed the following:

- Interviewed City staff involved in the take-home vehicles program.
- Reviewed City policies and departmental procedures related to the take-home vehicle program.
- Evaluated internal controls related to the assignment of take-home vehicles and the oversight of the program.
- Compiled a listing of City vehicles that were assigned on a take-home basis in CY2024 and obtained confirmation of the accuracy of the information from department heads.
- Performed detailed testwork on the 82 employee take-home vehicle assignments. This detailed testwork included, but was not limited to, employee eligibility, confirmation that no employee with a take-home vehicle was also receiving an auto allowance, and reporting of taxable fringe benefits in accordance with federal law.
- Calculated the CY2024 average cost per mile associated with take-home vehicles.

As a result of these audit procedures performed, three observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix below.

E. Observations, Recommendations, & Management Responses Matrix

| Ref | Observation | Recommendation | Management Response |
|-------------------|---|--|---|
| 1. | Take-Home Vehicle Policy Compliance | | |
| Priority 1 | <p>Controls described in the City Vehicle APM 6-4 are not operating as designed.</p> <p>a. Annual List Submission: Department Heads are not submitting complete take-home vehicle lists to the City Manager's Office as required by Section C. This list must include the employee's job classification, city of residence, and one-way mileage between their residence and workplace.</p> <p>b. Executive Dual Benefit: One instance was identified where an Executive Staff member incorrectly received both a vehicle and an auto allowance concurrently. Neither benefit had documentation of the City Manager approval, as required by Section 1c.</p> | <p>To ensure APM 6-4 compliance for the Take-Home Vehicle Program, it is recommended that:</p> <p>a. Department Heads submit an annual take-home vehicle request list for the upcoming year (including vehicle number, classification, residence, commute mileage, whether the employee receives an auto allowance, and if needed, an exception justification) to the City Manager's Office for approval.</p> <p>The City Manager's Office review and approve these requests and then notify Department Heads as well as Fleet Services to record the take-home vehicles in the fleet management system.</p> <p>b. The City Manager review and approve Executive Staff auto allowances or take-home vehicles in writing.</p> | <p>Agreed and will implement by September 30, 2025.</p> <p>a. In mid-November, Payroll will request Department Heads to submit an annual take-home vehicle list for the upcoming year by the first week of December, with the required detailed information. Payroll will review the auto allowance status and send the complete list of take-home vehicle requests to the City Manager's Office for approval. Upon approval, the City Manager's Office will send approvals to the applicable departments and Fleet Services. Fleet Services has started noting take-home vehicle status in the fleet management system.</p> <p>b. No Executive Staff members currently receive an auto allowance and take-home vehicle concurrently. The City Manager will review and approve all Executive Staff member take-home vehicle assignment or auto allowance.</p> |

| Ref | Observation | Recommendation | Management Response |
|-------------------|--|--|--|
| 2. | Financial Record Accuracy and Assets Accountability | | |
| Priority 1 | <p>The current control environment does not adequately ensure accurate financial records and responsible asset management regarding:</p> <ul style="list-style-type: none"> a. Vehicle Proceeds Deposits: Delayed deposit (average 58 days, up to 177 days²) and insecure storage of vehicle sale proceeds exceeding the City Charter daily deposit requirements. b. Vehicle Auction Tracking: Lack of carrier-provided documentation (e.g., bill of lading) for vehicle pickups hinders tracking of vehicles consigned for sale. c. Take-Home Vehicle Updates: Departments do not formally or timely communicate employee take-home vehicle status changes to Fleet Services leading to outdated records. d. Fleet Inventory: Biannual inventories are not performed to confirm the accuracy and completeness of the fleet listing in accordance with APM 6-2. | <p>It is recommended that:</p> <ul style="list-style-type: none"> a. Vehicle sales proceeds are deposited daily per the City Charter for accurate financial records and responsible fund management. Also, review the City Charter to determine if updates are needed for more practical deposit timeframes. b. Formal carrier documentation (a bill of lading with VIN, date, and carrier acknowledgment) for all vehicles sent to auction be required. This documentation should serve as evidence of a carriage contract and outline the carrier's responsibilities. c. Department Heads promptly notify Fleet Services of take-home vehicle status changes to ensure accurate and up-to-date records. d. Finance and Fleet Services, perform a physical inventory of the fleet with VIN verification. Findings should be reconciled with Finance and discrepancies investigated. | <p>Agreed and will implement by September 30, 2025.</p> <ul style="list-style-type: none"> a. Purchasing will test sending auction settlement reports directly to Finance for deposit account information, using the VIN, before the O-25 reconciliation. Purchasing will then review the results to determine if this process can be adopted to expedite check deposits currently delayed by the reconciliation process. b. (Implemented) Fleet Services has started requiring carriers to provide a signed bill of lading when picking up consignment vehicles. c. Management Services will communicate a take-home vehicle procedure to applicable department heads. d. Finance Department and Fleet Services will develop and implement a plan to conduct a physical inventory of the fleet, including VIN verification. |

² Detailed testwork performed identified 15 checks totaling \$359,578 were received in CY2024. The check amounts ranged from \$150 to \$151,383 and averaged \$23,972. The days elapsed between check date and deposit date ranged from 15 to 177 days and averaged 58 days.

| Ref | Observation | Recommendation | Management Response |
|-------------------|---|--|--|
| 3. | IRS Compliance | | |
| Priority 2 | <p>There are not adequate controls and monitoring processes in place to ensure compliance with the following IRS regulations concerning the tax treatment of take-home vehicles:</p> <ul style="list-style-type: none"> a. Confirmation that vehicle usage aligns with City policy. b. Determination that take-home vehicle assignments are subject to or exempt from taxable fringe benefit reporting. | <p>To ensure compliance with IRS fringe benefit and safe harbor guidelines, the following is recommended:</p> <ul style="list-style-type: none"> a. Employees with take-home vehicles should provide a signed statement, prepared by the City Manager's Office, acknowledging that personal use is limited to IRS-defined commuting. Departments should retain these statements as evidence of ongoing compliance. b. Payroll should annually provide updated IRS guidance on taxable take-home vehicle benefits and exemptions to department heads and Fleet Services. Fleet Services should then work with the applicable department to determine if a vehicle is a taxable benefit and record any exemption criteria within the fleet management system. <p>Departments that identify fringe benefits should work with Payroll to calculate and properly account for the associated tax impact.</p> | <p>Agreed and will implement by December 31, 2025.</p> |

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.