County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Valerie Barraza, Deputy Director, Auditor-Controller's Office **Date:** April 6, 2017

From: Barbara Beatty

Subject: **SUMMARY AUDIT REPORT OF PRIVATE VEHICLE MILEAGE REIMBURSEMENT**

We have completed two audits of private vehicle mileage reimbursement and issued separate audit reports during August 2016 and April 2017. This report is a summary of our individual audits to address private vehicle mileage reimbursement issues that impacted departments Countywide.

BACKGROUND

County Administrative Policy No. Chapter VII(C)-1, *Reimbursement of Employees County Business Expenses*, ("Reimbursement Policy") establishes the parameters for reimbursement of private vehicle mileage. The Auditor-Controller's General Accounting Division's Accounts Payable Section ("Accounts Payable") is responsible for centralized processing and payment of mileage reimbursement claims for the County. In this centralized role, Accounts Payable recommends Reimbursement Policy revisions to the County Executive Office ("CEO"). For fiscal year ("FY") 2013-14, the Countywide expenditure for private vehicle mileage reimbursement totaled approximately $739,000.

SCOPE

Our overall audit objective was to determine whether private vehicle mileage reimbursement claims paid for FY 2013-14 were appropriate and in conformance with County policy and regulations. We reviewed mileage claims paid to employees of the Human Services Agency ("HSA") and members of the Grand Jury, which accounted for 47 percent of the total Countywide mileage reimbursement expenditure for FY 2013-14. Specifically, we:

- determined whether private vehicle mileage claims were for actual, reasonable, and necessary expenses incurred in the performance of official duties; and
- evaluated whether departmental application of the Reimbursement Policy was efficient and cost effective.

Except as discussed in the following paragraph, our audits were performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* ("*IIA Standards*") promulgated by The Institute of Internal Auditors using documents from July 2013 through June 2014.

In connection with the impact of Accounts Payable on our audits, certain disclosures are necessary pursuant to *IIA Standards*. Specifically, *IIA Standards* state: "If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment." Although the Internal Audit Division and Accounts Payable both reside in the Auditor-Controller's Office, we believe that the following safeguards and division of responsibility exist. The Internal Audit Division staff, having the responsibility to perform audits, resides in a stand-alone division of the Auditor-Controller's Office and has no other responsibility of the accounts and records being audited. Therefore, the reader of this report can rely on the information contained herein.

FINDINGS

Overall, we found that private vehicle mileage reimbursements paid to HSA employees and members of the Grand Jury were appropriate and in conformance with County policy and regulations. For example, among our samples of mileage claims totaling $20,271 (3% of the total Countywide mileage reimbursement expenditure for FY 2013-14):

- The purpose of trips claimed appeared to be reasonable, necessary, and in the performance of official duties.

- Amounts paid were mathematically accurate using the correct Internal Revenue Service ("IRS") mileage rate.

However, we noted where revisions to the Reimbursement Policy could help reduce County costs and mitigate various risks by defining key terms that affect mileage reimbursement claims. Accounts Payable management initiated corrective action during the audit as noted.

1. **Reimbursement of Normal Commute.** County mileage reimbursement costs could be reduced by ensuring that no portion of an employee's normal commuting mileage is reimbursable to the employee. Reimbursement Policy Section 17(E)(1) states: "Normal commute (mileage from home to normal work site and back to the employee's home) is not deemed to be miles subject to reimbursement." However, the Reimbursement Policy also acknowledges that County business travel may begin and/or end at home, and states:

    - Reimbursement Policy Section 17(E)(3): "County business travel originating from an employee's home (without going to the normal work site) shall be computed based on the total round trip mileage."

    - Reimbursement Policy Section 17(E)(4): "County business travel originating from and/or terminating at the employee's home, where some part of the travel includes travel to the normal work site, will be computed based on the total round trip mileage, less half the round trip mileage of an employee's normal commute."

    In contrast, the mileage reimbursement policies of several other California State agencies and local governments restrict reimbursement to miles driven in excess of the normal commute. Had normal commuting mileage been deducted from 135 selected HSA trips that were round trips from home with or without stopping at the normal work site, mileage claims would have been reduced by 63 percent from $4,813 to $1,804.

In addition, the current Reimbursement Policy could create incentives for employees to plan business stops in such a manner that subsidizes the employees' normal commuting expenses. Out of 23 employees included in the HSA audit of 47 mileage claims, 4 (17%) employees claimed longer trip routes without an apparent business purpose for doing so. These trip routes indicated that employees could plan business stops as follows:

- Avoid stopping at the normal work site because the County may reimburse all mileage for the day while the employee averts personal commuting expenses.

- Make business stops either before arriving at the normal work site or after leaving the normal work site for the day because the County may reimburse half of the employee's normal commute.

- Make unreported stops at home between the normal work site and business stops because the County may effectively reimburse all of the employee's normal commute.

Note: During our audit, Accounts Payable provided us with Reimbursement Policy revisions that were recommended to the CEO but not yet adopted, which removed the normal commute from reimbursable mileage.

Recommendation. Accounts Payable should continue to work with the CEO to revise the Reimbursement Policy to only reimburse business mileage driven in excess of the normal commute.

Management Action. Accounts Payable management stated: "We will follow-up with the CEO to finalize our recommended revisions to the Reimbursement policy in the County Administrative Manual to exclude reimbursement for a normal commute."

2. **Definition of "Normal Work Site".** The Reimbursement Policy does not define the term "normal work site", although this term is key in determining mileage reimbursements in accordance with Reimbursement Policy Section 17(E) (see Finding 1 above for citations). The County could be faced with various risks without a formal definition of the "normal work site", including:

   - Inconsistent application of the term throughout the County for purposes of calculating mileage. For example, during our audit of HSA mileage reimbursements, we noted that some employees were instructed to use one or more other HSA offices ("alternate work sites") as the normal work site to prevent employees from claiming normal commuting mileage. However, other HSA employees were not given this instruction while other County departments may be providing yet different instruction when employees report to various work sites.

   - Improper reimbursement of normal commuting mileage when employees regularly report to alternate work sites, which for all intents and purposes are the employees' normal work sites.

   - IRS penalties and interest if the County does not properly report taxable mileage reimbursements as employee wages that are subject to tax withholding.

Recommendation. Accounts Payable should work with the CEO to revise the Reimbursement Policy to include a definition of the "normal work site" while considering IRS regulations.

Management Action. Accounts Payable management stated: "We will define 'normal work site' and recommend the CEO add the definition to the Reimbursement policy in the County Administrative Manual."

3. **Definition of "Accounting Period".** The Reimbursement Policy does not define the term "accounting period", which may have contributed to why employees did not always submit mileage claims on a monthly basis. Reimbursement Policy Section 12 stated: "Frequency of Submitting Expense Claims is at least once each accounting period. If a trip or activity falls in two accounting periods, the expense may be delayed until the end of the trip or activity. All claims are to be submitted within 12 months of incurring the expense. Claims submitted after 12 months of the expense must have Executive Department Head approval." Although not specified in the policy, an "accounting period" for the County of Ventura is one month. We found that 81 percent of HSA sample employees who accumulated mileage expenses on a monthly basis did not submit claims each month and instead submitted several months of claims all at the same time. This indicated that, although employees appeared to understand the 12-month requirement, employees did not realize that claims must be submitted monthly. As a result, County departments are less likely to detect inappropriate amounts in claims that are submitted late or in a batch of several months of claims.

   Recommendation. Accounts Payable should work with the CEO to revise the Reimbursement Policy to clarify that the term "accounting period" is defined as "one month".

   Management Action. Accounts Payable management stated: "We will recommend to the CEO to change 'accounting period' to 'monthly' in the Reimbursement policy in the County Administrative Manual."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. Accounts Payable management planned to complete corrective actions by March 31, 2017.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

cc: Honorable Jeffery S. Burgh, Auditor-Controller
Honorable John C. Zaragoza, Chair, Board of Supervisors
Honorable Peter C. Foy, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kelly Long, Board of Supervisors
Michael Powers, County Executive Officer