



Office of the Auditor General

Investigative Audit Report

Michigan Department of Education Employee's Use of Assigned State Vehicle

April 2022

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



OAG

Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

April 21, 2022

Dr. Michael F. Rice
Chair, ex officio, State Board of Education
Superintendent of Public Instruction
Michigan Department of Education
John A. Hannah Building
Lansing, Michigan

Dear Dr. Rice:

Consistent with our standard practices upon completing an investigative audit, we are issuing our investigative audit report on a Michigan Department of Education Employee's Use of Assigned State Vehicle.

Copies of this report are being forwarded to various relevant entities and legislative committees. Also, the report may be viewed on our public Web site at audgen.michigan.gov.

Sincerely,

Doug Ringler
Auditor General

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EXECUTIVE SUMMARY

BACKGROUND

The Office of the Auditor General's (OAG's) Fraud Investigative Services Team investigated an allegation that a Michigan Department of Education (MDE) employee used their assigned State vehicle for personal use during the COVID-19 pandemic (pandemic).

INVESTIGATION CONCLUSIONS

The employee drove their assigned State vehicle for personal use prior to and during the pandemic. The employee recorded an unusually high number of miles for periodic vehicle use, including personal errands MDE did not detect or properly account for on the employee's payroll for tax purposes.

The issues cited in this report represent opportunities for MDE to improve its oversight of employee use of assigned State vehicles. Improvements would help ensure MDE does not incur unnecessary costs and liability for unauthorized or inappropriate vehicle use and ensure employee personal miles are appropriately reported for tax purposes. MDE should undertake a review of all vehicle usage during the pandemic. At the time of our investigation, MDE had assigned State vehicles to 39 employees.

In addition, MDE should consult with the Department of Technology, Management, and Budget's (DTMB's) Vehicle and Travel Services (VTS) to establish actions to take when assigned vehicles are expected to be parked for extended periods of time. MDE should also consult with DTMB's Office of Financial Management (OFM) to implement procedures for reporting employees' personal use of State vehicles as taxable compensation.

AGENCY RESPONSE

MDE's response to the conditions identified is included in this report on page 10.

BACKGROUND FOR OAG INVESTIGATION, INVESTIGATION ACTIVITIES, INVESTIGATION CONCLUSIONS, AND AGENCY RESPONSE

BACKGROUND

Beginning March 16, 2020, at the onset of the pandemic, the Office of the State Employer ordered most State employees to work from home and simultaneously prohibited all non-essential in-state work travel. This eliminated many employees' need to drive their State vehicles from March 2020 until approximately mid-July 2021, when employees resumed work-related responsibilities requiring travel.

MDE informed us it verbally advised its employees in late September or early October 2020 to periodically start the engines on their assigned vehicles and/or drive them "around the block" to properly maintain the vehicles while they remained parked during the pandemic. MDE sent this same guidance via e-mail to employees in February 2021.

VTS requires agencies to ensure drivers of State vehicles comply with all regulations, accurately report all vehicle usage, and submit Official Daily Travel Logs (travel logs) as instructed by their respective departments. MDE requires all employees with a permanently assigned State vehicle to submit travel logs each month.

Pursuant to the Auditor General's constitutional and statutory authority to conduct post audits of financial transactions and make investigations pertinent to the conduct of audits, the OAG initiated a limited scope, investigative audit in December 2021 of an MDE employee's use of their assigned State vehicle.

INVESTIGATION ACTIVITIES

Our investigation activities consisted primarily of inquiries and the examination of selected records and other documentation. This report does not constitute an audit or attestation engagement conducted in accordance with generally accepted government auditing standards.

We reviewed laws, policies, procedures, and other authoritative guidance related to State vehicle usage. We met with VTS to better understand the requirements associated with acceptable State vehicle use and verified proper tax reporting procedures associated with personal use of State vehicles with OFM. We interviewed MDE management to obtain an understanding of its expectations for State vehicle use, maintenance, and reporting and the employee's job responsibilities and work schedule while working from home during the pandemic. In addition, we reviewed the employee's travel logs for January 2019 through December 2021 and related fuel transactions, vehicle service, and payroll records.

INVESTIGATION CONCLUSIONS

1. The employee drove their assigned State vehicle for personal use prior to and during the pandemic.

The employee recorded unusually high "periodic car use" miles during the pandemic. Our review of the employee's travel logs, vehicle service records, and fuel transactions from VTS disclosed the employee:

- a. Recorded driving 1,450 miles and stated the reason was for periodic car use on 42 different dates between March 16, 2020 and July 16, 2021. The employee recorded driving between 12 and 105 miles on these days and averaged 37 miles per trip to 15 different destinations.

The employee informed us they believed it was necessary to periodically drive the vehicle for "maintenance" purposes to keep it from developing mechanical issues while parked during the pandemic and that MDE had advised employees to do so. However, the employee recorded "periodic car use" as the reason for driving the vehicle at least 4 months prior to any direction from MDE, and the number of miles recorded appeared to exceed any reasonable interpretation of MDE's informal guidance to occasionally start the vehicle and/or drive it around the block. In addition, the employee informed us they used the vehicle for personal errands while driving the vehicle during this time and did not distinguish between personal miles and maintenance miles on the travel logs.

VTS requires that all State vehicle maintenance adhere to the Maintenance Assistance Program (MAP) guide provided within each vehicle. We reviewed the MAP guide's preventative maintenance schedule for the employee's vehicle and determined it did not indicate a minimum frequency of use or specify a minimum number of miles to be driven to ensure the vehicle remained in good operating condition.

In addition, although VTS allows for personal use of State vehicles in limited circumstances, it requires agencies to report the value of personal mileage as a taxable fringe benefit on the employee's wage and tax statement (W-2), in accordance with applicable Internal Revenue Service (IRS) regulations and the State of Michigan Financial Management Guide (FMG). The FMG further specifies that if an employee fails to substantiate the business connection for all miles recorded as business use within a period, the value of all miles driven during that period should be considered personal use and be included in the employee's taxable income, according to IRS regulations.

MDE should consult with VTS to obtain authorization to establish more definitive guidance for the periodic use of vehicles that remain with employees and are unused for extended periods of time. Because the employee's "periodic car use" miles included an unknown number of non-business miles due to the employee's personal errands, MDE should determine if it needs to report taxable income for the employee that could total \$818.17.

- b. Recorded driving the assigned vehicle 87 miles for personal use on seven different dates between January 3, 2019 and March 15, 2021. The employee informed us they were not aware this was prohibited conduct and their supervisor had never brought this to their attention. However, we noted the employee had previously signed a driver agreement acknowledging a State-owned vehicle could only be used for official State business.

Although the employee had recorded the miles as "personal" on the travel logs, their supervisor did not question the miles and MDE did not have procedures to ensure the miles were properly reported for taxation purposes. MDE should consult with OFM and establish procedures requiring its employees to enter personal miles directly on their time sheets or MDE administrative staff to centrally report personal miles from the travel logs.

- c. Did not submit travel logs for the first 11 months of the pandemic. MDE notified the employee in February 2021 to retroactively submit all travel logs back to March 2020. However, because MDE did not ensure the employee submitted a travel log at the end of each month as required, it could not ensure the accuracy of subsequently reported mileage on specific days within those 11 months and was unaware the employee had recorded unusually high periodic use of the vehicle during the pandemic.

MDE did not require supervisory review and approval of the travel logs for this 11-month period before submitting them to VTS. MDE explained it did not anticipate significant use of the vehicles during this time period. We noted anomalies with some of the entries in the travel logs, including odometer mileage recorded by the employee in one instance for a day that did not match the odometer mileage recorded by VTS when VTS performed service on the vehicle on the same day. In addition, the employee recorded driving to the VTS Secondary Complex garage for service on the

vehicle on four occasions and VTS had no record of servicing the vehicle on three (75%) of them.

- d. Recorded six trips between their residence and the VTS Secondary Complex garage for car washes, service, and fuel during the pandemic. These trips ranged between 35 and 63 miles and totaled 289 miles.

There were closer options for fuel and car washes, including a gas station less than a mile from the employee's residence which accepts the WEX fuel card and has an automatic car wash.

- e. Recorded periodic use of their assigned State vehicle during both duty and non-duty days, including days off on annual leave, holidays, and weekends. VTS policy prohibits such use of State vehicles during non-duty hours. In addition, if the employee drove the vehicle for periodic use while on duty, they likely incurred an indeterminable amount of payroll expenditures when conducting personal errands.
- f. Purchased \$210.54 worth of gasoline while driving the car for periodic vehicle use between March 2020 and July 2021. In addition, the employee purchased super unleaded gasoline on 4 (57%) of the 7 fuel stops, which is prohibited by VTS.

AGENCY RESPONSE

MDE provided us with the following response:

MDE agrees with the conclusions. MDE will ensure that each year, staff assigned to State vehicles will review the Driver Agreement and the Maintenance Assistance Program (MAP) guide that is provided within each vehicle. MDE will also consult with the Department of Technology, Management and Budget's (DTMB) Vehicle and Travel Services (VTS) to determine the actions to be taken when assigned State vehicles are expected to be sitting for any extended length of time. MDE will also develop procedures for staff with State vehicles to report any personal use of their vehicle as a taxable fringe benefit on their timesheet. MDE will provide annual training for managers on reviewing staff travel logs and vehicle service records for accuracy on a monthly basis. MDE's Human Resources Department will conduct an investigation of this, and any future alleged misuse of assigned State vehicles.



Report Fraud/Waste/Abuse

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