



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

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Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

August 19, 2004

Chairperson and Board of Directors
Habilitation and Training Services, Inc.
P. O. Box 1856
Gallatin, TN 37066

Ladies and Gentlemen:

We have completed our investigative audit of selected records of Habilitation and Training Services, Inc. (HATS). Our examination focused on the period July 1, 2003, through March 31, 2004. However, when the examination warranted, this scope was expanded. The audit focused primarily on the areas of disbursements and asset usage. Our audit revealed the following weaknesses:

1. HATS provided the executive director a vehicle for both business and personal use. The agency's "Automobile Policy for Executive Director of H.A.T.S., Inc.," allowed personal use of the vehicle by the executive director and by his spouse (with permission from the executive director). The policy also stated that the expense for gasoline purchased for personal use of the vehicle in the Middle Tennessee area was the responsibility of HATS. We noted several purchases of gasoline by the executive director using the agency's credit card.

The IRS considers use of an employer-provided vehicle to be taxable as personal use unless personnel policies specifically prohibit such use. IRS Publication 15-B states that the value of this fringe benefit is the annual lease value of the vehicle. However, HATS failed to report to the Internal Revenue Service (IRS) this taxable fringe benefit provided to the executive director or make applicable deductions. Applying the requirements of IRS Publication 15-B, the unreported fringe benefit realized by the executive director during calendar years 2002 and 2003 totaled \$12,200. All gasoline purchased for personal use would also be considered a taxable fringe benefit, valued at the actual cost of the fuel provided or purchased.

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2. HATS employees received cash bonuses totaling \$3,565 and gift cards totaling \$1,575 for Christmas. However, HATS employees were not required to sign indicating receipt of their bonuses or gift cards and HATS failed to report the bonuses and gift cards as income or make applicable deductions.
3. Day home companions received \$100 monthly for mileage reimbursements. However, no record of miles driven was maintained by HATS. IRS regulations require that absent adequate mileage records, such reimbursements should be treated as taxable income. HATS failed to report this income and make applicable withholdings.

To avoid possible penalties and interest, we recommend that HATS officials ensure that all applicable income and fringe benefits are correctly reported to the IRS and proper deductions are withheld.

If you have any questions concerning this matter, please contact me.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

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