Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF ADMINISTRATIVE COSTS CLAIMED UNDER PART A OF THE HEALTH INSURANCE FOR THE AGED AND DISABLED PROGRAM BY MUTUAL OF OMAHA INSURANCE COMPANY

JUNE GIBBS BROWN
Inspector General

AUGUST 1996
CIN: A-07-95-01175

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-95-01175

AUG 1 1996

Mr. Jack A. Dillon
Vice President, Government Programs
Mutual of Omaha Insurance Company
P. O. Box 1602
Omaha, Nebraska 68101

Dear Mr. Dillon:

This report provides the results of our *Audit of Administrative Costs Claimed under Part A of the Health Insurance for the Aged and Disabled Program by Mutual of Omaha Insurance Company*. The objectives of our audit were to determine whether (1) the auditee's final administrative costs proposals (FACPs) presented fairly the allowable costs of administration, and (2) the auditee had effective internal controls over the accounting and reporting for administrative costs incurred under the Medicare program.

Our audit of administrative costs of $42,144,233 claimed by Mutual of Omaha (Mutual) for the 2-year period ending September 30, 1994 showed that Mutual had (1) generally presented the administrative costs fairly and (2) maintained effective internal controls over the accounting and reporting of administrative costs. However, our audit also showed that Mutual:

- claimed $1,210 of unallowable costs because of allocating a portion of a tax penalty to the Medicare program in Fiscal Year (FY) 1994;
- claimed automobile costs of $6,469 and $5,885 which exceeded the Federal Travel Regulation (FTR) mileage rates for FY 1993 and FY 1994; and
- claimed travel costs in excess of the per diem rates published in the FTR.

We are recommending a financial adjustment of the unallowable tax penalty cost and are setting aside for Health Care Financing Administration (HCFA) adjudication the automobile costs which exceeded the FTR mileage rate. Due to materiality, we are not recommending any financial adjustments involving travel costs in excess of published per diem rates. We are also recommending certain procedural changes, when needed, involving the noted conditions.

Mutual concurred with two of the three findings and recommendations. Mutual did not concur with the finding regarding excessive automobile costs, citing that (1) the Runzheimer Plan of automobile Standard costs are in compliance with the Medicare Agreement/Contract, and (2) the goal of Mutual is to provide an equitable reimbursement program for their employees. Mutual's response is summarized in the recommendation section of this report and included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Title XVIII of the Social Security Act, Health Insurance for the Aged and Disabled (Medicare), provides that organizations may assist in administering the Medicare program under contracts with the Secretary, U.S. Department of Health and Human Services. Most Medicare contractors, intermediaries (Part A) and carriers (Part B), perform work under cost reimbursement contracts that are renewed annually.

Mutual was an intermediary under cost reimbursement contracts for October 1, 1992 through September 30, 1994. For that period, Mutual claimed $42,144,233 in administrative costs.

FISCAL YEAR	ADMINISTRATIVE COSTS
1993	$20,707,224
1994	21,437,009
TOTAL	$42,144,233

SCOPE OF AUDIT

We performed our audit in accordance with generally accepted government auditing standards. We examined $42,144,233 of administrative costs incurred and claimed by Mutual during October 1, 1992 through September 30, 1994 to determine if amounts claimed were in accordance with applicable laws and regulations. Based on our tests, we believe Mutual complied with regulatory requirements for the items tested, except as disclosed in the Findings and Recommendations section of this report.

The objectives of our audit were to determine whether (1) the auditee's FACPs presented fairly the allowable costs of administration in conformity with the reimbursement principles contained in the Federal Acquisition Regulations (FAR) part 31 as interpreted and modified by the Medicare agreements, and (2) the auditee had effective internal controls over the accounting and reporting for administrative costs incurred under the Medicare program.

Our review included:

- determining allowability and reasonableness of costs allocated to Medicare;
- reviewing internal controls over the significant areas relevant to our audit objectives;
- identifying and analyzing significant changes in the amounts claimed by cost categories for each type of cost during the audit period;
- tracing the amounts claimed on the FACPs to Mutual's corporate books and records; and
- following up on findings and recommendations identified during the previous administrative cost audit to determine whether the reported deficiencies were corrected.

We conducted our review at Mutual's offices in Omaha, Nebraska, during September 1995.

FINDINGS AND RECOMMENDATIONS

Based on our audit, we are questioning $1,210, setting aside $12,354 for HCFA adjudication, and making recommendations for procedural changes. The conditions noted are summarized below and discussed in detail in the following sections.

➊ Mutual claimed an unallowable tax penalty of $1,210.

➋ Mutual claimed $12,354 in automobile costs which exceeded the mileage rate published in the FTR.

➌ Mutual claimed travel costs in excess of the per diem rates published in the FTR.

➊ Tax Penalty

Mutual inadvertently coded costs such that a portion of a tax penalty was charged to the Medicare program. In Fiscal Year (FY) 1994, Mutual allocated $1,210 of a $34,000 tax penalty to the Medicare program. The FAR, Part 31.205-15 states:

> *(a) Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and*

> *regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer.*

Recommendation

We recommend the FY 1994 FACP be reduced by $1,210.

Mutual's Response

Mutual concurred with this finding and indicated that procedures currently in place to review overhead costs allocated to the contract will be strenghtened.

❷ Automobile Costs

The administrative cost charged by Mutual for automobile costs exceeded the mileage rate published in the FTR by $6,469 and $5,885 for FY 1993 and FY 1994. The Medicare Agreement/Contract, Appendix B, Section XII states:

> *The reasonable cost of such automobiles which may be charged to this agreement/contract shall be the actual cost not to exceed the rate published in the Federal Travel Regulations, as issued by the General Services Administration during the term of this agreement/contract. However, if actual cost exceeds the published rate, it shall be allowable to the extent that any excess above the published rate can be documented as necessary and reasonable.*

Instead of using the mileage rates published in the FTR, Mutual used an outside service to determine the amount of reimbursement for the business use of employees' personal vehicles. Mutual had not documented the necessity and reasonableness of paying the higher rates. We are setting aside automobile costs of $12,354 ($6,469 + $5,885) for HCFA adjudication as to necessity and reasonableness.

Recommendation

We recommend HCFA determine the necessity and reasonableness of $12,354.

Mutual's Response

Mutual believed the current automobile reimbursement program is both reasonable and necessary.

Auditor's Comment

The information provided by Mutual in support of its opinion is contained on Appendix B for HCFA's use in determining the reasonableness and necessity of the $12,354.

❸ Travel Costs

Certain travel costs (lodging, meals, and incidental expenses) claimed by Mutual exceeded per diem rates contained in the FTR. The FAR, Part 31.205-46 states:

> *costs incurred for lodging, meals, and incidental expenses...shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel as set forth in the-- (i) Federal Travel Regulation, prescribed by the General Services Administration ...*

We are not recommending any financial adjustments as we (1) considered the identified amounts in our review of a sample of travel vouchers to be immaterial and (2) concluded that expanding our sample would not be cost effective.

Recommendation

We recommend that Mutual establish procedures to ensure that future travel costs claimed for Medicare reimbursement be in accordance with the FAR.

Mutual's Response

Mutual concurred with this finding, indicating that procedures were established to provide more detail of future travel costs claimed for unusual circumstances and Medicare reimbursement.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

The status of open audit findings from the prior audit are discussed in the following sections.

Internal Control Procedures Related to Overhead Costs

The prior audit recommended that "The Contractor should strengthen its internal control procedures to assure that only allowable overhead costs are charged to the Medicare contract."

As part of Mutual's FACP preparation, Mutual has implemented procedures to review the overhead costs to ensure that these costs are allowable. We noted, based on our review of Mutual's FACP working papers, that Mutual has performed this review and our audit of Mutual's overhead costs revealed no substantial unallowable costs.

Medical and Other Professional Consultants Agreements

The prior audit recommended that "The Contractor should maintain written agreements documenting the specific arrangements, particularly the nature and terms, applicable to medical and other professional consultants. In addition, the Contractor should strengthen its internal control procedures to ensure adequate documentation of all claimed costs, including medical consultant billings."

Mutual now requires that all agreements with medical and other professional consultants be in writing. Although the actual agreements are in writing, Mutual has not documented in writing its policies and procedures related to contracting with consultants and the charging of their costs. However, Mutual was able to provide us with adequate documentation in support of claimed costs examined in our audit. In addition, Mutual has stated that in a consistent effort to improve internal controls, it would document in writing its policies and procedures.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determination as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to each of the recommendations in this report within 14 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Sincerely,

Barbara A. Bennett

Barbara A. Bennett
Regional Inspector General
for Audit Services, Region VII

Enclosures

HHS Action Official:
Mr. Joe L. Tilghman
Regional Administrator, Region VII
Health Care Financing Administration
601 East 12th Street, Room 235
Kansas City, Missouri 64106

MUTUAL OF OMAHA INSURANCE COMPANY - PART A
FACP COSTS CLAIMED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 1993

COSTS CLAIMED ON FACP	AMOUNT
Bills Payment	$ 7,193,124
Reconsiderations and Hearings	167,883
Medicare Secondary Payer	2,514,516
Medical Review and Utilization Review	817,118
Provider Desk Reviews	4,092,069
Provider Field Audits	3,181,635
Provider Settlements	1,343,035
Provider Reimbursements	1,119,369
Productivity Investments	128,167
Fraud & Abuse	105,070
Other	45,238
Total FACP Costs	**$20,707,224**
Set Aside for Adjudication:	
Automobile Costs	6,469
Accepted Costs	**$20,700,755**

MUTUAL OF OMAHA INSURANCE COMPANY - PART A
FACP COSTS CLAIMED AND INCURRED
FOR THE YEAR ENDED SEPTEMBER 30, 1994

COSTS CLAIMED ON FACP	AMOUNT
Bills Payment	$ 7,311,781
Reconsiderations and Hearings	181,219
Medicare Secondary Payer	2,543,358
Medical Review and Utilization Review	1,000,483
Provider Desk Reviews	3,858,671
Provider Field Audits	3,771,161
Provider Settlements	1,356,786
Provider Reimbursements	1,157,106
Productivity Investments	47,988
Fraud & Abuse	208,456
Other	0
Total FACP Costs	**$21,437,009**
Recommended Adjustments:	
Tax Penalty	1,210
Total Adjusted Costs	$21,435,799
Set Aside for Adjudication:	
Automobile Expense	5,885
Accepted Costs	**$21,429,914**

Mutual of Omaha Companies

Contractor for
MEDICARE

February 22, 1996

Barbara A. Bennett
Regional Inspector General
Audit Services, Region VII
601 East 12th Street
Room 284A
Kansas City, Mo 64106
CIN: A-07-95-01175

Enclosed is Mutual of Omaha's response to the draft audit report on Medicare Part A administrative costs for the period October 1, 1992 through September 30, 1994. If you have any questions about our response or need additional information, please contact me at (402) 351-2587.

Sincerely,

Jack Dillon

Jack Dillon
Vice President & Director, Medicare

cc: Dan Friedlund
Lynn Bowley
James Tucker

MUTUAL OF OMAHA INSURANCE COMPANY

RESPONSE TO THE OFFICER OF INSPECTOR GENERAL'S DRAFT REPORT ON

AUDIT OF MEDICARE PART A ADMINISTRATIVE COSTS

FOR THE PERIOD

OCTOBER 1, 1992 THROUGH SEPTEMBER 30, 1994

RESPONSE TO INTRODUCTION AND SCOPE

Mutual of Omaha is in agreement with the Medicare Administrative costs incurred and claimed in the amount of $42,144,233 for the period October 1, 1992 through September 30, 1994.

RESPONSE TO FINDINGS AND RECOMMENDATIONS

TAX PENALTY

Mutual of Omaha accepts this finding and recommendation. Procedures are in place to review the overhead costs allocated to the Medicare contract to ensure that only allowable costs are included. We always strive for the highest possible accuracy in our Medicare reporting. We will continue in our efforts to modify and enhance the process as dictated by changing requirements and environments.

AUTOMOBILE COSTS

Mutual of Omaha believes the current automobile reimbursement program, the Runzheimer Plan of Automobile Standard Costs, is in compliance with the Medicare Agreement/Contract, Appendix B, Section XII. The goal of Mutual of Omaha has been to provide an equitable reimbursement program for our employees. To obtain this goal, we sought the assistance of the experts in the field: Runzheimer and Company.

Runzheimer and Company specializes in the analysis of passenger car costs and the development of equitable and reasonable reimbursement programs. The Runzheimer Plan was founded in 1933 and is currently used by over 1,000 United States and Canadian firms. They have the uniqueness of being the source for providing information concerning automobile expenses relied upon by the American Automobile Association, as well as providing the IRS with the national per mile rates for U.S. taxpayers. The program is based on the concept of employee ownership. The objective of the plan is to fairly reimburse drivers for the necessary and differing operating and ownership costs they incur while using their personal vehicles on company business in different geographical areas of the country. This plan also enables all applicable employees, including new, to immediately own and operate a standard car that management considers appropriate for business use.

The Runzheimer plan was adopted at Mutual of Omaha in 1988, and has remained unchanged in concept. The only changes have been to the amounts and rates which are based on periodic updated information received from Runzheimer and Company. Automobile costs allocated to the Medicare contract have been reviewed by previous auditors and were unquestioned as to being "reasonable and necessary." Enclosed is a copy of the Mutual of Omaha Companies' Auto Plan booklet for your review. The booklet explains how the plan works in greater detail. Based on this booklet, and the above information, we believe the reimbursement plan is both "reasonable and necessary."

TRAVEL COSTS

Mutual of Omaha accepts these findings and recommendations. Procedures are established to provide greater detail concerning future travel costs claimed for unusual circumstances and Medicare reimbursement, in accordance with the FAR.

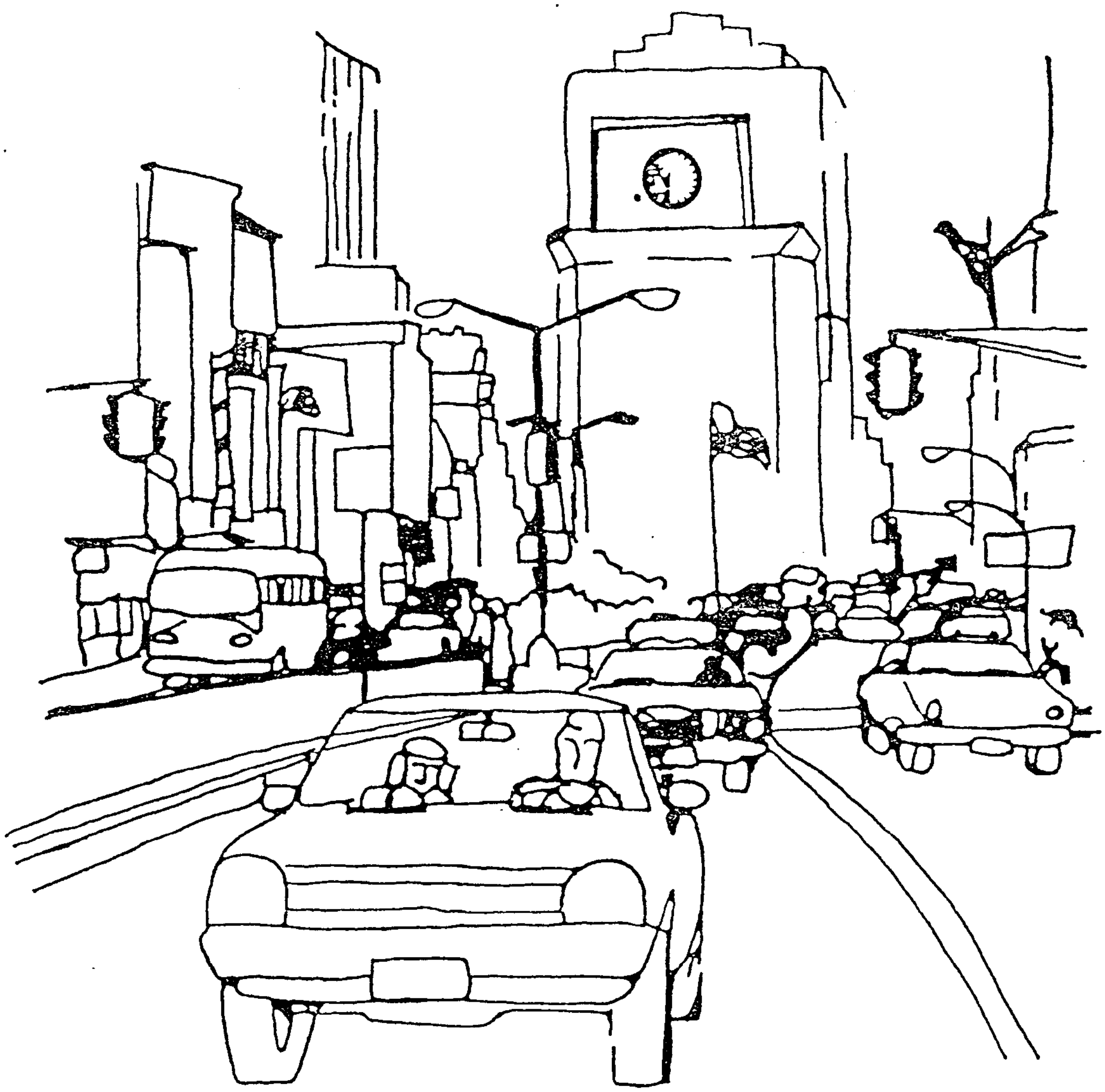
FOLLOW-UP ON PRIOR AUDIT FINDINGS

MEDICAL AND OTHER PROFESSIONAL CONSULTANT AGREEMENTS

Mutual of Omaha accepts the recommendation to strengthen internal control procedures concerning documentation on Medical consultant billings. Again, in an effort to maintain and improve internal control, Mutual of Omaha is currently documenting the policies and procedures concerning these professional consultant agreements.

Mutual of Omaha Companies'

Auto Plan



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I. Overview

The goal of the Companies has been to provide the best programs available to our employees. As we continually review our current business vehicle program, we utilize the assistance of the experts in this field, Runzheimer and Company.

With their assistance, we have established a reimbursement program that is fair, accurate and defensible. This program, based on the concept of employee ownership, reflects the current trend of many companies to avoid the inherent problems with company-provided programs.

The reimbursement is composed of three factors.

1. An Operating (per mile) Cost reimbursed for all reported business miles to cover expense for gas, oil, normal maintenance and tires.

2. An Ownership Cost reimbursed monthly to cover the time related business costs of insurance, license fees, taxes and depreciation.

3. A Financing payment, outside the Runzheimer Plan, to cover interest expense.

The information in this booklet will outline the most pertinent aspects of this policy. Please read it thoroughly. If there are still questions, discuss them with your manager.

II. Introduction to the Runzheimer Plan of Automobile Standard Costs

The objectives for this Auto Plan were developed through the use of surveys and studies of automobile usage in our field locations, coupled with Runzheimer and Company's expertise in the auto reimbursement area. The objectives are to provide a system tailored to individual needs that will do the following.

1. Fairly reimburse drivers for both the operating and ownership costs they incur while operating their personal vehicles on company business.

2. Adjust for the significant variances in the operating and ownership costs in different areas of field coverage.

3. Provide understandable, flexible reimbursement policies which will be periodically adjusted to reflect cost changes.

4. Be more responsive to the operation of a car that is in keeping with your position as a field representative.

Our company selected the international management consulting firm of Runzheimer and Company, which specializes in the analysis of passenger car costs and in the development of equitable reimbursement programs. The Runzheimer Plan was founded in 1933 and is currently used by over 1000 United States and Canadian firms covering over 260,000 sales and service representatives. They have the uniqueness of being the source for information concerning automobile expense relied upon by the American Automobile Association, as well as providing the IRS with the national per mile rates for U.S. taxpayers.

III. Advantages of the Auto Plan for the Employee

Our Plan is designed to provide a reimbursement method that is fair, manageable and flexible. The Plan has these built-in advantages for you, the user.

1. Ownership of a valuable asset no matter what job assignment.
2. Benefit of resale value when vehicle is traded.
3. Reimbursements reflect geographic cost differentials.
4. Reimbursements are based on a current model vehicle.
5. Program is reviewed and updated on a timely basis.
6. Reimbursements are explainable and accurate.
7. Freedom to select vehicles/accessories of personal choice.
8. Minimum reporting requirements.
9. A financial reward for cost-conscious driving.
10. Opportunity to select most beneficial option when completing personal income taxes.

IV. How the Plan Works

A. Auto Expense Factors

The Auto Plan recognizes that two kinds of costs are involved in driving a car: (1) Operating costs and (2) Fixed costs.

Operating Costs (Variable)
These include the cost of gasoline, oil, regular maintenance work and normal tire wear. These operating expenses are "variable" since they depend on the actual number of miles driven. Your reimbursement for these variable costs will be a cents-per-mile rate for each business mile that you drive and report.

Ownership Costs (Fixed)
Ownership costs are expenses that you incur no matter how few or how many miles you drive. These costs include items such as insurance, license and registration fees, taxes and auto depreciation. The annual total of these ownership costs calculated for your geographic area is divided by 12 months to determine a monthly ownership cost. IRS regulations now require the business use percentage to be determined by dividing the annual business mileage by the annual total mileage. Regulations limit the maximum business use percentage to 75 percent.

The data for ownership and operating costs are gathered for specific geographical locations and for specific driving conditions. From this localized data, a reimbursement Vehicle Schedule is derived for each eligible employee.

B. The Vehicle Schedule — The Reimbursement Tool

The Vehicle Schedule will be the basis for your reimbursement. The schedule is predicated on the costs of operating and owning a standard car in specific geographical locations. Standard reimbursements have been developed for geographic cost areas throughout the country, as well as different types of road and traffic conditions. In this way, the Plan recognizes and reflects differences in operating and ownership costs which vary from location to location.

Following are the specific parameters used in developing our program, along with a representative Vehicle Schedule.

V. Program Specifications

OPERATING COST STANDARDS

Standard Miles Per Gallon
Based on the standard vehicle by the territory classification established.

Normal Fuel Price Per Gallon
Based on a 50% full-service and 50% self-service blend of no-lead, regular-grade fuel price norms for the complete driving territory shown. Prices are surveyed monthly and updated when justified. A new cost schedule will be mailed to you when a change is justified.

Fuel and Oil Per Mile
Determined by dividing the normal fuel price by the standard mileage per gallon and adding the oil consumption factor.

Maintenance Per Mile
Covers normal and preventive maintenance to assure sound and economical operation.

Tires Per Mile
Covers all-season, steel-belted radial tire rotation, repair, balancing and replacement costs. Based on the purchase of original equipment, all-season radial tire replacements, balancing, repairs and rotations.

ANNUAL OWNERSHIP COST STANDARDS

Insurance — Comprehensive
Covers the current average premium for the base vehicle for $100 deductible insurance for the base city on the Vehicle Schedule. The deductible can be increased at the driver's option.

Insurance — Collision
Covers the current average premium for the standard vehicle for $250 deductible insurance. The deductible can be increased at the driver's option.

Insurance — BI and PD
Covers Bodily Injury - $250,000 each person
$500,000 each accident
Property Damage - $100,000 each accident
Uninsured motorist coverage at statutory limits is also included.

License and Registration
Covers annual state fees on the standard vehicle for registration, certificate of title and inspection where incurred.

Annual State Taxes
Covers imposed average annual statewide personal property, excise and ownership tax in states where applicable.

Annual Vehicle Cost
Includes depreciation reimbursement based on the average annual decrease in value from the time the vehicle was new until the time it is sold. In addition, this factor includes the annual value of the state sales tax.

Finance Expense
Covers interest expense incurred as a result of financing the standard vehicle. It is computed on a fixed annual percentage rate (which can vary each year), no driver down payment and a loan based on your retention period. This item is paid separately, outside of the Vehicle Schedule reimbursements.

Total Ownership Cost
Sum of reflected annual ownership expense factors. Represents annual fixed costs which do not vary appreciably with mileage driven.

% of Ownership Cost
Represents the percentage of ownership costs reimbursed by the Companies. This percentage is shown on each Vehicle Schedule.

STANDARD COST REIMBURSEMENTS

A. **Operating Cost Per Mile**
The sum of reflected operating expense items. Covers items which related directly to miles driven.

B. **Fixed Cost Per Month**
The amount of ownership expense absorbed by the Companies divided by 12. This represents a portion of the ownership costs paid in addition to the per-mile reimbursement under Item A.

VI. Sample Vehicle Schedule

RUNZHEIMER VEHICLE STANDARD COST SCHEDULE
FOR
MUTUAL OF OMAHA COMPANIES
LEVEL II - 3 YR/60,000 MILES

DATE 6/11/91

OMAHA — CLT NO: 260465-2200 — UNIT NO.: 19
BASE CITY: OMAHA NE — TERRITORY CLASS: AB
TERRITORY: NE0510# 50-79% METRO
STANDARD VEHICLE:
1991 CHEVROLET CAVALIER RS 4 DR SEDAN 2.2L 4 CYL
VEHICLE PURCHASE PRICE $10,871

— — — OPERATING COST STANDARDS — — —

1. STANDARD MILES PER GALLON	26.5			
2. NORMAL FUEL PRICE PER GALLON	139.8¢	(NO-LEAD)		
3. FUEL AND OIL PER MILE		5.46¢		
4. MAINTENANCE PER MILE		1.97¢		
5. TIRES PER MILE		.87¢		

— — — ANNUAL FIXED COST STANDARDS — — —

6. INSURANCE - COMPREHENSIVE	$100 DEDUCTIBLE		$ 133.00	
COLLISION	$250 DEDUCTIBLE		247.00	
BI & PD	$250/500/100M		297.00	
				$ 677.00
7. LICENSE AND REGISTRATION				22.00
8. TAX - PERSONAL PROPERTY TAX				379.00
9. ANNUAL VEHICLE COST				2573.00
10. TOTAL FIXED COST				3651.00
11. 71.4% OF FIXED COST				2606.81

— — — STANDARD COST REIMBURSEMENTS — — —

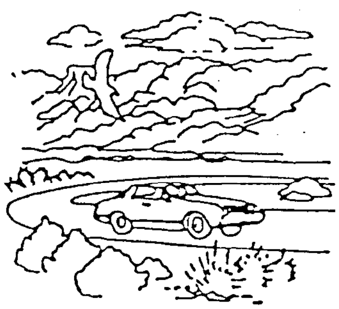
A. OPERATING COST PER MILE	8.30¢	
B. FIXED COST PER MONTH		$ 217.23

VII. Explanation of Vehicle Schedule Items

The Vehicle Schedule is divided into several sections. The first section with informational items while the remaining sections focus on cost standards and reimbursement levels. The following comments provide a brief description of the essential items that make up the Vehicle Standard Costs.

Territory Class

We recognize various territory classes relating to road surface, terrain, traffic and climatic conditions as follows:



A

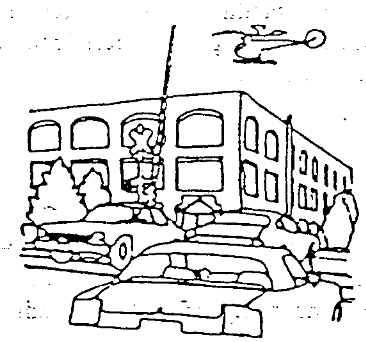
Containing well-paved roads, mainly level terrain and moderate weather conditions.

B

Containing intermediate paved roads and/or hilly or mountainous terrain and/or territories north of the 45-degree mean annual temperature line where a high percentage of mileage is driven under cold weather conditions.

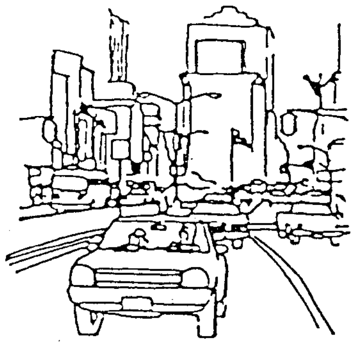
C

Containing poorly paved roads and/or exceedingly mountainous terrain.



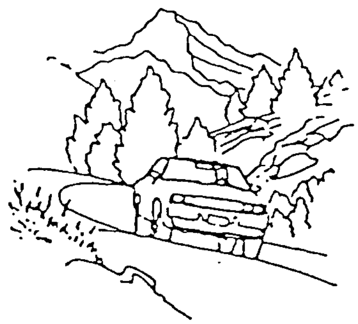
AB

Metropolitan areas in which 50-79% of annual business mileage is driven under "stop-and-go" conditions.



ABC

Metropolitan areas in which 80% or more of annual business mileage is driven under "stop-and-go" conditions.



BC

Containing roads and terrain that offer intermediate driving conditions between those of B and C type territories.

CX

Containing special road, climatic or terrain conditions which result in unusual operation costs.

The classes of territories result in the following differentiations: In miles-per-gallon standards: ABC receives the lowest standard and the highest fuel reimbursement; AB, B, BC, and C receive the intermediate standard and fuel reimbursement; A receives the highest standard and the lowest fuel reimbursement. In maintenance: B, BC and C receive a higher standard than A, AB and ABC. In tires: C receives the highest standard, BC the second highest standard, AB and ABC the third highest standard; A and B receive the lowest standard. The CX classification is accorded only on receipt of specific information regarding special road surface, terrain and climatic factors in a particular territory which clearly justifies this classification.

OPERATING COST STANDARDS

Item 1 — Standard Miles Per Gallon
This item is determined by performances shown on fleet records from thousands of passenger vehicles across all sections of the country. These standards have no direct relationship to other published figures because published figures (such as EPA) normally reflect "test" conditions on a small sampling of vehicles.

Mechanical specifications affecting vehicle performance are primarily weight of vehicle, piston displacement of motor, compression and gear ratios. These composite specifications are influenced by conditions of operation. These conditions are addressed by assigning a territory classification code to each driving territory. The differences in performance from one territory to another may generate varying data.

Vehicle care and driving habits are vital when establishing mileage standards. For example, individuals who habitually accelerate rapidly from stoplights, or fail to keep their vehicles properly tuned, will likely not achieve the standards established.

Item 2 — Normal Fuel Price Per Gallon
This is the normal price of no-lead, regular-grade fuel, based on 50% full-service/50% self-service gasoline in your area. Runzheimer surveys over 750 marketing areas monthly to determine the current local price of gasoline.

Item 3 — Fuel and Oil Per Mile
This is determined by dividing the normal fuel price by the standard mileage per gallon and adding for oil consumption. this includes the normal oil changes as recommended by the manufacturer for the base vehicle.

Item 4 — Maintenance Per Mile

This item covers normal and preventive maintenance expenses that occur during the retention cycle. It includes such things as lubrication, brake relining, spark plug replacement, oil filter replacement and other items of maintenance that may reasonably be expected during the specified retention period.

Item 5 — Tires Per Mile

This item covers the costs of purchasing all-season, steel-belted radial replacement tires, repairs, rotations and balancing. This tire allowance also takes into account the road conditions and terrain.

ANNUAL OWNERSHIP COST STANDARDS

Item 6 — Insurance

This item indicates cost factors for the vehicle insurance parameters as previously discussed. Reimbursement factors for all insurance items reflect annual premium levels for:

A. the base city location.
B. normal risk driver profile.
C. personal vehicle used primarily for business purposes.

Item 7 — License and Registration

This item covers average annual state registration, certificate of title and state inspection fees, where incurred.

Item 8 — Annual State Taxes

This item includes average annual taxes which may be incurred during vehicle registration:

Alabama:	Automobile Ad Valorem Tax
Alaska:	Personal Property Tax
Arizona:	Vehicle License Tax
Arkansas:	Personal Property Tax
California:	Vehicle License Fee
Colorado:	Specific Ownership Tax
Connecticut:	Personal Property Tax
Georgia:	Automobile Ad Valorem Tax
Indiana:	Excise Tax
Kansas:	Personal Property Tax
Kentucky:	Personal Property Tax
Maine:	Municipal Excise Tax
Massachusetts:	Excise Tax
Michigan:	Registration Fee
Minnesota:	Registration Tax
Mississippi:	Automobile Ad Valorem Tax
Missouri:	Personal Property Tax
Montana:	Personal Property Tax
Nebraska:	Personal Property Tax
Nevada:	Privilege Tax
New Hampshire:	Municipal Permit Fee
North Carolina:	Automobile Ad Valorem Tax
Oklahoma:	Vehicle License Tax
Rhode Island:	Excise Tax
South Carolina:	Personal Property Tax
Texas:	Personal Property Tax
Utah:	Personal Property Tax
Virginia:	Personal Property Tax
Washington:	Excise Tax
West Virginia:	Personal Property Tax
Wyoming:	County Fee

This cost standard represents the annual average state tax assessment of the various counties throughout the state. No other annually imposed fees on the part of state or local governments are included. (See Cost Items Subject to Special Reimbursement later in this section.)

Item 9 — Depreciation (Annual Vehicle Cost)
The depreciation factor on the Vehicle Schedule reflects the average annual decrease in vehicle value from the time it was new until the time it is sold. Additionally, this item includes a average annual factor for the state sales tax paid for the car when originally purchased.

The depreciation reimbursement factor remains the same until fixed cost factors are reviewed and updated one year later. This updating includes a change in the "standard car" to the current model year.

Item 10 — Total Ownership Cost
This is the sum of the annual ownership expense standards. It represents the included annualized ownership costs which do not vary appreciably with mileage.

Item 11 — % Ownership Cost
This item represents the group average percentage and portion of the Total Fixed Cost that is attributable to the standard business use of the program base vehicle. It is based on the percentage of total business miles versus total annual miles (business and personal), not to exceed 75%.

STANDARD COST REIMBURSEMENTS

A. **Operating Cost per Mile**
This is the sum of the operating cost items. It represents the reimbursement per mile for costs which vary directly with mileage driven. This Total Operating Cost Per Mile is paid based on reported business mileage.

B. **Ownership Cost Per Month**
This is the fixed monthly reimbursement for your individual territory. It is determined by dividing the amount shown in % ownership cost by 12 months.

COST ITEMS SUBJECT TO SPECIAL REIMBURSEMENT

There are two kinds of cost items which are not included in the Vehicle Schedule and must be submitted on your expense report for reimbursement. They are as follows.

1. Overnight storage when away from home city, daytime parking fees, bridge, highway and ferry tolls.

2. Local city license fees/taxes which are annually imposed (i.e., wheel, specific ownership-type taxes). State/City sales, use, excise or similar taxes imposed when the vehicle is purchased have been included in the standard delivered price of the car in the driver's home city and, therefore, are reflected in the annual depreciation factor on the Vehicle Schedule.

VII. Procedure for Reimbursement

Auto Expense Report

You will need to submit weekly Auto Expense Reports, Form MLU16625, to your department. Remember to fill in the ending odometer reading for the week being reported and the Car driven information, year, make, model. When calculating mileage expense, you must use your individualized standard cost reimbursement figure to arrive at your total per mile cost. The weeky expense will be reimbursed as soon as they are received. If your weekly expense reports does not exceed $10 in reimbursable expense, please delay submitting your report. Accumulate weekly expense reports until they exceed the $10 limit.

Please keep in mind that the Company does not give reimbursement for any auto report over 3 months old.

Fixed Monthly Payment

A monthly check will be sent to you by the end of each month for the monthly fixed expenses. The amount you receive is paying you for the current month and payment will be automatically sent to you.

Financing Payment

The financing payment is paid from the Payroll Department and is paid in the arrears. The payment will be issued on the 10ths paycheck.

If any special problems occur regarding reimbursement, please contact Fleet Administration.

IX. Commonly Asked Questions

Q&A

Background

Q. Who developed the vehicle expense reimbursement data?

A. The vehicle reimbursement data was developed by Runzheimer and Company.

Q. Who is Runzheimer?

A. Runzheimer is an international management consulting firm specializing in the analysis of passenger car costs and in the development of equitable reimbursement programs. The Runzheimer Plan was Founded in 1933 and is currently used by more than 1,000 North American firms covering over a quarter-million sales and service representatives.

Methods

Q. How does the Runzheimer Plan work?

A. The Vehicle Schedule will be basis for your reimbursement. This schedule is predicated on the costs of owning and operating a standard car that management considers appropriate for business use.

There are two costs involved in the ownership and use of a car. An ownership cost that is primarily affected by time and an operating cost directly related to miles driven. Your total reimbursement will, therefore, be composed of two factors: a fixed dollar amount (based on your retention cycle) plus a cents-per-mile reimbursement paid for the actual number of business miles driven and reported.

Q. Will the Companies pay all costs for my personally owned car?

A. No. Your reimbursements are designed to pay for all fixed and variable cost directly related to the business use of your car, providing that your car comparably reflects the standards and policies used to develop the data.

Your standard reimbursement will not pay for excessively expensive vehicles, insurance cost beyond the norm, or any vehicle-related costs that reflect personal choices in excess of the reimbursement standards established.

Q. I am a new employee. When will my reimbursement program become effective?

A. Reimbursement will be effective the date of hire or your assignment to the field. Your management will determine the effective date. Payments are prorated for the first month based on the number of days worked in that month.

Q. What will happen to my reimbursements when I go on vacation, am sick, or have a holiday fall on one of my normally scheduled work days?

A. The monthly fixed cost reimbursement will continue, however, the daily cents-per-mile reimbursement will not be paid, since you will not be driving business miles.

Q. What if I am on disability/maternity leave? Will my reimbursements continue?

A. Yes. Your monthly fixed cost reimbursement will continue following the Companies disability/maternity guidelines and IRS regulations.

Q. How will I collect my ownership cost reimbursement?

A. The payment will automatically be sent by the end of each month.

Q. How will I report my mileage and other vehicle expenses?

A. Mileage, tolls and parking fees will be reported using the standard auto expense report.

Q. Will I know exactly how my reimbursement is calculated?

A. You will receive a Vehicle Schedule itemizing all ownership, operating cost and retention cycle factors used to develop your reimbursement.

Q. Will these ownership and operating costs be reviewed and updated?

A. Yes. The costs in each designated area are regularly surveyed and reviewed. Ownership costs, under continuous review by Runzheimer, will be revised and updated annually.

Fuel costs are reviewed monthly and, if justified, periodic adjustments will be made during the year in the Operating Cost Per Mile.

Changes in ownership and operating costs are made either up or down depending upon changing cost factors so that reimbursements are always reasonably current.

Q. & A.

Q. What if I believe the data does not reflect correct performance or reimbursement? How do I obtain review or adjustment of the established level?

A. We are confident that standard costs will provide correct and equitable reimbursement. However, to ensure that this objective is maintained, all questions from employee-drivers about any aspect of this program will be reviewed and analyzed. Forward all questions in writing to Fleet Administration. If appropriate, your letter will be forwarded to Runzheimer and Company for analysis and response. You will be provided with a complete copy of their response. The Company will, of course, make the final decision on any recommended action after considering all circumstances.

Territory

Q. What location is used to determine the driver's fixed and operating cost factors?

A. Fixed and operating cost factors are based on the Cost Area to which the driver is assigned. The fixed costs are based upon the base city within the Cost Area as indicated on the Vehicle Schedule. Operating Costs are determined by variable cost factors that exist within the boundaries (travel territory) of the Cost Area.

MPG

Q. How does Runzheimer establish the Miles Per Gallon (MPG) performance level reflected on the Vehicle Schedule?

A. The MPG figure reflects actual performance by thousands of cars identical to our standard car; operating under conditions identical or comparable to yours. Part of Runzheimer's research includes the acquisition of performance records from hundreds of fleets throughout North America. These records provide highly detailed accounts of vehicle operating characteristics and performance levels. This data is analyzed, reviewed and used to establish normal performance standards.

Gasoline Price

Q. How does Runzheimer and Company establish the gasoline pump price reflected on my Vehicle Schedule?

A. Each month, Runzheimer conducts a comprehensive fuel price survey throughout North America (which they have segmented into more than 750 fuel marketing areas). Actual prices are obtained from each marketing area, statistically compiled and keyed to the territory. Your gas price reflects 50% full-service/50% self-service no-lead gasoline. If justified by cost increase or decreases, the gasoline price is automatically revised and new Vehicle Schedules are forwarded to you.

Maintenance

Q. What kind of maintenance expense is included in the maintenance per mile?

A. All normal and preventive maintenance necessary to keep the car operating is included. This includes such things as lubrications, brake relining, spark plug replacement, filter replacements, etc. In short, all items of maintenance and service that are of a reasonably predictable nature in terms of ultimately being required some time during the operation of your vehicle are included. In addition, factors are built in to take care of nominal maintenance, repair and replacement items which, though unpredictable, are demonstrated items of expense during the life of a vehicle. This would include such items as windshield wiper blade replacement, headlamp replacements, fan belt replacements, etc.

The best way to tell whether or not your maintenance factor is sufficient for business-related costs is to add up expense and compare it against reimbursement. Any dollar difference should be no more than the percentage relationship between business and personal miles on your vehicle. Remember, though, that when you do incur major maintenance expense (a tune-up, for example), your actual business-related expense at that point may be somewhat higher than your reimbursement for a short time. However, since you will not require that maintenance again for 10,000 or 12,000 miles, the business mileage reimbursement will ultimately catch up with the expense.

It is difficult to isolate business-related maintenance reimbursement and expense relationships for any specific segment or portion of your car's life. It is the total amount during the entire time you use your car for business that will firmly establish whether or not you have been adequately reimbursed for all the business-related maintenance on your vehicle.

Q. What about the expense of abnormal repairs like engine and transmission failures?

A. Major repairs of this type are seldom necessary in two, three or four year old cars if proper maintenance is performed, following the manufacturer's service guide. And in most cases, these are covered by the manufacturer's warranty.

Q. What if my personal vehicle is in for maintenance or repairs and I need substitute transportation. Who pays for it?

A. Your ownership and operating reimbursements will continue to be paid during the time you drive any substitute vehicle, therefore the cost you incur would be your own.

Q.&A.

Tires

Q. What about the cost of replacement tires for my personal vehicle?

A. Your operating cost reimbursement includes replacement of original equipment all-season, steel-belted radial tires (Tires Per Mile).

Q. Who pays for tire repair?

A. Your tire factor (Tire Per Mile) includes a reimbursement factor for occasional repairs.

Vehicle Selection

Q. What type of car is used as the basis for the reimbursement?

A. The base vehicle and its accessories is outlined on Attachment A. This schedule will be updated and sent to you on a yearly basis.

Q. When I buy my personal vehicle for business, are there any restrictions on the make or model or how I equip it?

A. We are allowing a wide latitude in the type of car you may purchase. We expect the vehicle to be suitable for business in the area you are required to use it.

IRS guidelines require that the vehicle being used cost when new at least 90% of our (the Companies) standard automobile, excluding sales tax, used at the time of your enrollment. This price information is available from the Vehicle Cost Schedule, Attachment A Summary Sheet and Fleet Administration.

The following types are not considered appropriate under the program:
Campers
Vans (except Mini-Vans)
Pickup Trucks
Recreational Vehicles
Mini Cars

If you should have any questions as to whether or not an auto will qualify please check with Fleet Administration.

Q. Will I be reimbursed for the actual vehicle I use for business?

A. Only if the car you use is comparable to the standard. In other words, if you purchase a larger, more expensive vehicle, your reimbursement may be less than your actual costs.

Q. Can I lease a vehicle to use on business?

A. Yes, providing it is a personal lease agreement; although we suggest you use caution. In most instances, vehicle lease arrangements are significantly more expensive than ownership.

Q. When I purchase my vehicle, must I buy a new vehicle or can I purchase a used one?

A. The car you acquire for business use can be a used car. However, it will need to have cost when new at least 90% of our standard automobile (excluding sales tax) that is being used at the time you replace your current auto.

Please keep in mind that the model year of the vehicle new or used should not differ from the current calendar year by more than the number of years in your retention period.

Q&A.

This means that a driver who purchases a used 1990 auto, for example, and is on a three year trade cycle, may operate this vehicle through December 31, 1993, so long as the vehicle does not go over 100,000 miles (including the mileage registered on the odometer at the time you purchase it).

Once the vehicle has reached its maximum number of years based on the years of your retention cycle, and the vehicle is not replaced, your fixed monthly payment will be lowered to include only insurance reimbursement. The financing payment will also be stopped. Your cents per mile reimbursement will continue based on your vehicle cost schedule. Since the auto no longer qualifies for the program, a portion of your payments could qualify as compensation and be subject to withholding.

Company policy regarding maximum mileage has been modified. Because of safety concerns, autos exceeding 100,000 miles will not qualify for any reimbursement.

With these considerations in mind, the choice of a new or used vehicle is up to you.

Retention Period

Q. Is there any policy on when my personal vehicle must be replaced?

A. Depreciation-related calculations are based on a vehicle retention cycle selected by the Company, based on time and mileage. The model year of your vehicle should not differ from the current calendar year by more than the number of years in your retention cycle.

For example, if a driver purchased a new 1991 vehicle in 1990, the driver would be required to replace the vehicle by the end of December 1995, based on a four year retention cycle. If the driver was on a three year retention cycle then the vehicle must be replaced by the end of December 1994. Please keep in mind that once the vehicle reaches 100,000 miles regardless of what retention cycle is being used, the vehicle must be replaced, or all payments will be stopped.

Q. Must I keep my vehicle to the point of time and mileage established by the Companies?

A. No. You may purchase a different vehicle for business use whenever you wish. The replacement vehicle must cost when new at least 90% of our standard automobile (excluding sales tax) that is being used at the time you replace the vehicle.

Any change must be communicated to your management and Fleet Administration, as soon as possible, so the proper forms can be mailed out to you.

Q. What happens if I keep my car longer than the established limits?

A. Part of your monthly fixed reimbursement is a factor for depreciation. Once your auto has reached its maximum number of years (based on your retention cycle) and it has not been replaced, your Fixed monthly payment will be lowered to include only insurance reimbursement. The financing payment will also be stopped. Payment for business miles will continue based upon your vehicle cost schedule. Keep in mind that since the auto no longer qualifies for the program, a portion of the payments made to you could qualify as compensation and be subject to withholding.

If your vehicle should reach 100,000 miles, all reimbursements will be stopped, until your auto has been replaced with one that qualifies under the program.

Insurance

Q. Is a reimbursement factor for automobile insurance included in the plan?

A. Yes. The insurance reimbursement factors allow for the purchase of $100 deductible comprehensive; $250 deductible collision; bodily injury of $250,000 each person/$500,000 each accident, property damage of $100,000 each accident; and uninsured motorist coverage at statutory limits.

The deductibles for both comprehensive and collision can be increased at the driver's option.

Q. Can I purchase insurance with limits lower than those outlined by the Companies?

Q. & A.

A. No. Since you are being reimbursed for the expense of insurance coverage with the previously stated limits, you must secure coverage at least at these levels.

Q. What if I am a "risk" driver because of incurred moving violations or a chargeable accident? Will the insurance reimbursement take that into consideration?

A. Basically, no. It is not appropriate to reimburse you for careless or unsafe driving habits that you are capable of eliminating. The reimbursement does not, therefore, reflect higher insurance costs which may be attributable to poor driving on the part of you or any member of your family. However, in some states, risk classifications for a "normal" driver allow for a traffic violation or two without added "risk" (increased) premium.

Q. What about expense caused by traffic accidents with my personally-owned vehicle?

A. If an accident occurs at any time, the resultant expenses are a matter between you, the other party to the accident and your insurance carrier.

Q. What do I need to submit as proof of insurance?

A. A copy of your current Auto Declaration page or other document that states the liability coverage and expiration date of the policy that you have purchased.

With each renewal you will be required to submit a copy of the new declaration page or other document that shows the limits of liability and expiration date of the policy.

License

Q. What does my license and registration factor include?

A. License and registration on your Vehicle Schedule includes vehicle registration, title (where applicable) and inspection fees (where mandatory).

Q. What about city license fees or city/state inspection?

A. In those instances where local license fees or inspection fees are consistent in a particular area, or known in advance, they will be included in your reimbursement under License and Registration.

Should you incur an expense of this type and it is not included in your allowance, it can be separately reported for reimbursement. If you are not sure it is included, ask through proper channels.

In keeping with the Fixed Expense percentage policy, should any fee of this type be reported for direct reimbursement, only your current business use percentage of the appropriate fee incurred for a "standard car" will be reimbursed. Therefore, when requesting reimbursement for an expense of this type, you must also include a description of the actual vehicle covered by the fees. This information will be forwarded to Runzheimer who, on the basis of the car actually being driven, will recommend the proper amount to be reimbursed.

Taxes

Q. Are city/state sales taxes considered in establishing reimbursement data?

A. All city/state sales and/or use taxes are factored into the original price of the vehicle. Because of inconsistencies, local (city/county) sales taxes may not be included. If there is an applicable city/county sales tax, simply document the fact and submit to Fleet Administration for evaluation.

Q. What about personal property tax on my car? How do I get reimbursed for that cost?

A. For those drivers residing in states that assess a personal property tax on automobiles, a Tax-Miscellaneous has been included. This item reflects the average annual assessment over the replacement cycle period.

Depreciation

Q. & A.

Q. How is the reimbursement for depreciation calculated?

A. First, The original cost is established (every year) on the basis of a current-year model standard car equipped with factory standard accessories plus the optional accessories previously mentioned, as well as any state required options.

The total original car cost (95% of dealer invoice cost per IRS guidelines) plus accessories, freight and state sales tax is established.

Using historical statistical standards based on actual used car resale values, Runzheimer and Company projects the total depreciation expense of this "standard car" based on the years of the assigned retention cycle. An annual average is established by dividing that total depreciation by the years of the assigned retention cycle. This becomes the average annual depreciation factor (Depreciation) which remains the same until fixed cost factors are reviewed and updated one year later. This updating includes a change in the "standard car" to a current model.

You will always be reimbursed on the basis of a current year model car even though you may, in fact, actually be driving a two, three or four year old car.

Q. What if I must replace my vehicle earlier than the assumed retention cycle because of high mileage?

A. We have multiple retention cycles in which we can place our drivers. We can allow movement between the retention cycles, so that depending on the number of business miles you drive each year, and the Companies 100,000 mile maximum, you should not have to replace the vehicle sooner than the retention cycle you have been assigned.

Q. Will I be paid for additional depreciation for driving over the maximum mileage for my retention cycle?

A. In the past, payments to high mileage drivers were nontaxable. Under current IRS regulations these payments are now considered taxable. As a result, we have restructured our retention cycles so that the high mileage adjustment is no longer necessary.

If you should drive over the maximum mileage of your retention cycle, you will be placed in the next highest cycle for the coming year. And a retroactive payment will be given to you for the previous year based on the proper retention cycle you should have been assigned.

Finance Expense

Q. If I have to finance the purchase of my own car, do I get reimbursed for the finance (interest) charges?

A. Yes. You are reimbursed for finance (interest) expense based on your assigned retention cycle, on a annual percentage rate (established each year) and no down payment. The payment will be issued from the Payroll Department, with payment being given in the arrears, and will be combined with your 10th payroll check.

Because the payment is considered compensation, the appropriate payroll taxes will be withheld.

Miscellaneous

Q. What options do I have regarding income tax filing?

A. While we cannot speak for the Internal Revenue Service, there are three alternatives from a Federal Income Tax standpoint with regard to both fixed and operating expense reimbursement.

1. You can consider the reimbursement as a direct offset to expenses incurred during business travel with a personal car and no further documentation need accompany your tax return. You should, however, retain documentation in the event it is ever needed for audit situations.

2. You can declare the total annual reimbursement as income and offset it with business-related expense incurred for the actual vehicle driven. In the event you select this alternative, it is important that all expenses deducted are adequately supported by receipts, canceled checks, etc.

Q.

&

A.

3. You can declare the total annual reimbursement as income and offset it with the current IRS allowable automobile business expense deduction (cents-per-mile limit) for total business mileage accrued during the same taxable year.

The Companies do not specifically recommend any one of these methods. Each employee must evaluate all circumstances and make the final decision. Consultation with a tax advisor on this subject is suggested.

Q. If I decided to deduct actual expense, what IRS forms apply?

A. The specific IRS form for Employee Business Expense for automobile business travel, meals and lodgings is Form 2106.

Two good references to use when filling out Form 2106 are IRS Publication 463: Travel, Entertainment and Gift Expenses, and IRS Publication 917: Business Use of a car. New editions are printed each year reflecting current tax legislation for business-related expenses and are available at no cost from any IRS office.

Q. Why does the Reimbursement Schedule reflect less than 100.0%?

A. IRS regulations do not permit payment of 100% of all ownership costs. Every afternoon or evening, you take the vehicle home. Every morning, you use it to drive to work. In between, the vehicle is available for personal use just as it is during holidays, weekends, and vacation. Whether you do or do not use it during those nonbusiness periods of time is a matter entirely of your choosing. The IRS, however, considers it personal time. If reimbursement for all that time was provided, we would be providing you with income subject to withholding and FICA taxes. The percentage used is based on a ratio of business versus total miles, not to exceed 75%.

Q. I frequently run into employees from other firms, some of them also under The Runzheimer Plan, who seem to be getting different reimbursement amounts for ownership and operating costs. If The Runzheimer Plan is so accurate, how can there be differences between companies?

A. The Runzheimer Plan is used by many major firms and numerous organizations. While all of them use the same concept, they do not all use the same parameters or standards.

We have set the standards and use Runzheimer data in an attempt to be as fair as possible in allocating reimbursement to individual employees under our parameters.

Q. Is there a minimum business mileage requirement that I must meet to keep my payments as non-taxable?

A. Yes. Non-taxable payments can be made only to drivers who substantiate a minimum number of business miles each year. The mileage that our employees must annually drive will be conveyed through our Attachment A Summary sheet. The minimum mileage may change with each year.

Q. What will happen if I do not drive the minimum mileage required?

A. A calculation will be made to determine what portion, if any, of the program payments are taxable. To do this, the driver's business miles times the standard mileage rate (which is set by the IRS) will be compared to the fixed and variable payments made under the program. The portion of the program payments that exceed the mileage calculation will be considered taxable and reported on the employee's Form W-2.

Q. Why is the business use percentage on the Vehicle Cost Schedule different than my actual percentage?

A. Each driver is placed in a retention cycle based on business mileage. Each retention cycle has its own group business use percentage. The group percentage is based on the total business miles versus the total annual miles not to exceed 75%.