

City Auditor's Office *Employee Expense Reimbursement Audit*

December 2019

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City Auditor's Office

December 30, 2019

Honorable Mayor and Members of the City Council:

The City Auditor's Office has completed the Employee Expense Reimbursement Audit. The purpose of the audit was to review current processes and practices and compliance with policy related to employee expense reimbursements.

Management's response to our audit finding and recommendation, as well as the target implementation date and responsible staff, is included following the report.

We would like to thank staff from the Finance Department, as well as other departments, for their full cooperation and assistance during the audit.

Lori Brooks Jaquess

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA
City Auditor

Attachment

cc: Trey Yelverton, City Manager
Jim Parajon, Deputy City Manager
Gilbert Perales, Deputy City Manager
Jennifer Wichmann, Assistant City Manager
Mike Finley, Finance Director/CFO

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Executive Summary

The City Auditor's Office has completed the Employee Expense Reimbursement audit. The performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to review current processes and practices and compliance with policy related to employee expense reimbursements.

The City Auditor's Office noted strengths in the Finance Department related to the following areas:

- Written policies and procedures provide guidance for requests, reimbursement and reporting of training and travel activities and costs, as well as other employee-paid expenses.
- Staff is diligent in their responsibility to review final Travel Expense Reports.
- Controls in the Catalyst accounts payable system require invoices/items be reviewed and approved by authorized personnel prior to payment.

We noted potential opportunities for improvement in the following areas:

- Consistent compliance with City policies and procedures
- Maintenance of adequate documentation and proper approval for reimbursement of other employee-paid expenses

Details of audit findings, conclusions and recommendations are included in the following report.

Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards. The scope of the audit included reviewing reimbursements for employee-paid travel expenditures and other miscellaneous expenditures during the period of October 2017 through July 2019, to ensure they were reasonable, adequately documented, properly approved, and complied with City policies and procedures.

In planning and performing our audit, we obtained an understanding of the Finance Department's internal controls and assessed the internal control risks significant to our audit objective. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories: (1) Operations - effectiveness and efficiency of operations; (2) Reporting - reliability of reporting for internal and external use; and (3) Compliance - compliance with applicable laws and regulations. We determined the following *internal control components* were significant to our audit objective:

- control environment
- control activities
- information and communication
- monitoring

*For further information regarding internal control components and the related principles of internal control, please see **Appendix A**.*

The following methodology was used in completing the audit:

- Reviewed existing City policies and procedures related to travel and training costs and employee expense reimbursement.
- From the Lawson financial system, obtained a report of non-payroll payments made to City employees during the period of October 2017 through July 2019 and identified a statistically valid sample for audit testing.
- Reviewed supporting documentation and management approvals for the sample of training and travel expense reimbursements (and other miscellaneous employee reimbursements) to determine compliance with City policy.

Background

The City of Arlington provides funding to departments for authorized employee training to develop general job skills or prepare employees for new and increasing responsibilities, job promotions and/or career changes within the City organization. Training is often obtained through attending conferences, meetings, conventions and seminars outside the Dallas/Ft. Worth metropolitan area. The City will pay reasonable costs associated with authorized travel and training. Typically, the initial expenses (i.e. transportation/airfare, lodging and registration) are paid with a City Purchasing Card (PCard). However, there are other expenses (i.e. per diem - meals and incidentals, transportation - taxi or Uber, and parking, etc.) paid to the employee in advance or paid by the employee and then reimbursed to them at the conclusion of the trip.

The City also promotes the attainment of additional knowledge related to an employee's field of work by providing funding for professional certifications, licensing and testing preparation fees, and educational assistance. For some field employees, the City also provides funding for required work uniforms (i.e. shoes/boots, pants and shirts). In each of these cases, the employee may expend his/her own funds and then request reimbursement from the City. The reimbursement process was reviewed during this audit.

The Finance Department is responsible for the overall administration of the employee expense reimbursement process; however, each department is responsible for monitoring and ensuring its employees comply with established policy. The City of Arlington's Human Resources and Finance Departments have established policies and procedures related to the reimbursement of employee expenses. Compliance with these City policies and procedures was tested during the audit.

Audit Results

A listing of all non-payroll checks issued to City employees during the period of October 2017 through July 2019 was obtained from the City's financial system. Included was a total of 1,400 training/travel reports and 853 other type of reimbursements to City employees during the period. A statistically valid sample size of 65 training/travel reports and 63 other employee-paid expenses was determined. A random number generator program was used to identify the individual transactions to be reviewed during the fieldwork.

For the individual employee training/travel reports selected for review, the hard copies, along with supporting documentation, were obtained from the Payroll Supervisor. Other employee-paid reimbursable expenses were reviewed in Catalyst. After reviewing these records, some clarifying questions were addressed to the employees who received the reimbursement. Since many of the initial costs for training and related travel (i.e. registration, airfare, and lodging) are paid with a City PCard, a download of PCard transactions from J.P. Morgan Chase was obtained to reconcile those reported costs to the bank records and verify employees were not reimbursed for purchases made with a City PCard.

Tests performed during this review:

- Reviewed the initial Travel Authorization document to determine the location, purpose and dates of the travel; ensure estimated costs for the trip were provided by the employee; and verify the document was approved by the department Director.
- From the final Travel Expense Report, scheduled the actual expenditures and determined if the various expenses were paid with a City PCard or check, or if the expenses were paid by personal credit card, check or cash. For expenses identified as being paid with a City PCard, traced the payment to the PCard transaction download from J.P. Morgan Chase Bank.
- For costs that appeared to be paid with a personal credit card, performed a search of those account numbers within the Chase Bank download to ensure those amounts were not paid with a City PCard.
- For the final Travel Expense Report, ensured that the report was signed-off by the department Director and by the Finance Department, which are both required by policy.
- Ensured that travel costs were charged to the correct account; and the payment amounts (reimbursements) were accurate.
- Ensured that all required documentation (for lodging, airfare, registration, per diem, etc.) was present and attached to the final Travel Expense Report.
- Ensured that the final Travel Expense Report was submitted by the employee to the Finance Department within 15 calendar days from the date the employee returned from the trip.

- For advances, ensured that the advance was not issued to the employee more than seven working days prior to the date of the travel.
- For non-training/travel expenses, ensured that a copy of the appropriate documentation (education assistance reimbursement request with supporting documents; paid invoice; or mileage reimbursement request, etc.) was available in Catalyst.

Some instances of non-compliance with policy and other deficiencies were noted. These are discussed further in the following Detailed Audit Findings section of the report.

Detailed Audit Findings

Lack of Consistent Compliance with City Policies and Procedures

Policies and procedures are established to provide guidance for the daily activities of an organization and to ensure that controls are in place to adequately protect assets. The City has developed policies and procedures related to the reimbursement of employee-paid expenses such as training/travel; education assistance; certifications; uniform allowances; and personal vehicle mileage, etc.

As a result of the testing performed for training/travel reimbursements (65 transactions), there were some policy violations identified that are discussed in detail below. These violations are related to the City's Personnel Policy, Section 108.00 - Training and Travel.

- Section 108.03.B.1 states, "Employees must provide an estimated cost of the trip using the Travel Authorization Expense Report form and obtain prior approval from their Director. In the event travel is conducted without prior approval, the employee may be responsible for all expenses incurred." There were 10 travel reports reviewed in which there was no documentation provided to show that the initial Travel Authorization (and estimated cost) was approved by the employee's department Director.
- Section 108.03.C.1 states, "Employees may request travel advances for meals and incidental expenses from the Accounts Payable Division. A request for advance travel funds must be submitted on a Payment Authorization form that contains all pertinent information at least 5 working days before the date of travel. The check shall not be issued more than 7 working days before the date of travel." Of the 17 advances identified in the audit sample, 4 were provided to the employee more than 7 working days prior to the date of travel.
- Section 108.03.E states, "Itemized original receipts from the vendor must be provided for all expenses, except meals and incidental expenses. Credit card slips will not be accepted. Failure to submit itemized receipts will render those expenses non-reimbursable." There were 4 completed travel reports for which original receipts (e.g., parking, baggage, taxi/shuttle and registration) were not included in the documentation. The employees were reimbursed for those expenses.
- Sections 108.03.E.1.c/e state, "The employee may not claim the entire per diem rate for travel periods of less than one full day." Also, "Where meals are provided at conferences and included in the registration fees, reimbursements should not be requested except when limitations of an individual cannot be accommodated by the conference organizers, or when the exception is approved by the Director for business purposes." Various issues related to per diem payments were identified, including the following:
 - No documentation was provided to justify the per diem rates for the training location (6 instances).

- The per diem rate documentation was provided for the location; however, the actual amount paid to the employee was miscalculated (6 instances).
 - The per diem amounts paid could not be validated because an itinerary was not included indicating what meals, if any, were provided (3 instances).
 - A total of 18 final Travel Expense Reports were adjusted by the Finance Department due to an error in the employee's calculation of the per diem amounts. Adjustments were also made for other errors, such as parking rates and personal mileage calculations.
- Section 108.03.H.1 states, "All travel expenses incurred for travel outside the metroplex shall be submitted on a Travel Authorization & Expense Report form with the proper approval and sent to the Accounts Payable Division within 15 calendar days of the conclusion of the trip." Of the 65 travel reports reviewed, 13 were submitted after the 15-day period. In 6 of those 13 reports, the employee did not include the date he/she submitted the form (i.e. for calculation, we used Director/Payroll Supervisor's date of approval); therefore, the actual timing could not be accurately determined.
 - Section 108.03.H.6 states, "The Accounts Payable Division shall review the items submitted for mathematical accuracy and compliance with the provisions of this Chapter." Two final Travel Reports were not signed-off by Finance Department personnel. In addition, there was one final Travel Report that was not signed-off by the department Director.

As a result of the testing of other miscellaneous expense reimbursements to employees (63 transactions), the following exceptions were noted:

- A mileage reimbursement form was not signed by the employee's supervisor or the department Director. The employee approved his/her own expense in Catalyst, resulting in no proper approval.
- Another form completed to reimburse multiple individuals for mileage was not signed by a supervisor or the department Director. Proper approval could not be verified.
- For two reimbursements for employees' purchases of uniforms, the sales tax was also reimbursed.

As noted earlier, policies and procedures are established to provide guidance for the daily operations of the City. City management is responsible to ensure those policies are being followed to protect City assets. Proper monitoring of employee reimbursement requests is necessary to help prevent unnecessary expenditures.

Recommendation:

1. ***The City Auditor's Office recommends that the Finance Director/CFO remind department Directors to consistently ensure reimbursements for travel and training, as well as other employee-paid expenditures, are documented adequately, properly approved, accurate, and comply with established policies.***

AUDIT RECOMMENDATION AND MANAGEMENT RESPONSE

RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE
<p>1. <i>The City Auditor's Office recommends that the Finance Director/CFO remind department Directors to consistently ensure reimbursements for travel and training, as well as other employee-paid expenditures, are documented adequately, properly approved, accurate, and comply with established policies.</i></p>	<p>Concur</p>	<p>Reviewed policy and audit with Department Directors and Division Managers that report to the City Manager's Office. Discussed possible future improvements and both the City Manager and Chief Financial Officer re-iterated the importance of following proper procedure and adhering to control processes.</p>	<p>Mike Finley, CFO</p>	<p>12/19/19</p>

Appendix A

The Five Components and 17 Principles of Internal Control

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.
9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.