Audit Report
Employee Expense Reimbursements
July 1, 2017 to December 31, 2017
November 6, 2018

City Auditor's Office
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Purpose and Scope

The intent of this audit was to determine the effectiveness of the City's employee travel and reimbursement policy and whether employees' reimbursements were in compliance with City policies. For the audit period July 1, 2017 to December 31, 2017, we reviewed 100% of expense reimbursement transactions for 45 executives, and 135 non-executive employees who were reimbursed the most from all departments.

As a follow-up to prior audits, 100% of Planning Department employees' travel expense reports were reviewed. Auditors also examined a sample of expense reimbursements for conferences where three or more City employees attended, and a sample of airfare and hotel P-card transactions, along with 100% of rental car P-card transactions.

We conducted this performance audit 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 objectives.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion

Internal controls and compliance have improved over the past few years. However, additional improvement is necessary. Departments and individual travelers should be held more accountable.

Summary Findings and Recommendations

For July 1, 2017 to December 31, 2017, the employee expense reimbursements for training and travel which made up the audit universe for this review totaled $500,061. From these expenses, auditors tested $214,365 or 43% of the dollars expended. For past audits, dollar errors totaled between 0.8% and 3% of the tested transactions. For this period, dollar error inaccuracies decreased. However, there were also excessive costs incurred due to poor planning (see Finding 3.A. for late registrations and missed conference hotel deadlines totaling $2,326). Auditors also questioned $4,500-$5,000 in costs incurred due to a failure to understand airline pricing (see Finding 3.B.), and violations of airline seat upgrades, rental car and personal vehicle usage policies (see Finding 4).

The following findings are detailed, beginning on page 3:

1. Monetary inaccuracies were about 0.5% of the dollars tested, while the number of claims with at least one error totaled about 9%.

2. Of 194 employees reviewed, three were underpaid a total of $243 and fourteen were overpaid a total of $823.

3. Departments need to improve travel planning to avoid excess costs of late registrations, and increased hotel rates. Some departments may need to be restricted from making travel arrangements.

4. Accounts Payable has continued to process non-compliant submittals. Administrative non-compliance should be addressed more efficiently.

Background

The Employee Travel and Reimbursements Policy (MFS 18), was revised and became effective on January 1, 2015. Its stated objective is:

> …to establish uniform regulations governing authorization for employee travel and other employee reimbursements. These regulations are intended to be consistent with efficient operation while permitting sufficient flexibility on the part of the Department Director and his or her employees in the conduct of City business.

The Employee Travel and Reimbursements Policy was further revised effective November 1, 2016. Changes included the following:

- Requirement to include P-card statements or MUNIS report, in addition to receipts
- Clarity regarding reimbursable and non-reimbursable expenses
- Extended submittal requirement from four to fifteen days following travel completion

Internal Audit previously reviewed employee expense reimbursements for FY16 and FY17. The audits concluded that departments must take stronger enforcement actions, consistently following City-wide policies and documentation requirements.

For July 1, 2017 to December 31, 2017, employee expense reimbursements totaling $500,061 were posted to the following accounts:

- Training conferences and meetings
- Travel and meetings
- Employee reimbursement training

Audit Findings and Recommendations

1. ***Monetary inaccuracies were about 0.5% of the dollars tested, while the number of claims with at least one error totaled 9%.***

   The July 1, 2017 to December 31, 2017 expense reports reviewed were reimbursed with a 99.5% compliance rate, an improvement over prior years. The error rate for claims with an inaccurate monetary claim was about 9%, also an improvement.

   The audit examined the documentation for 194 unique travelers from July 1, 2017 to December 31, 2017. As detailed in finding #2 below, seventeen employees required payments to or from the City to resolve reporting errors.

2. ***Of 194 employees reviewed, three were underpaid a total of $243 and fourteen were overpaid a total of $823.***

   Policy violations and administrative errors continue to occur. Improved department attention and Finance Department enforcement is needed. The following under-reimbursements and over-reimbursements during the period July 1, 2017 to December 31, 2017 were noted.

   Under-reimbursement Corrected – Three employees were underpaid a total of $243.

   A. An employee submitted an expense report that included reimbursement for mileage driven. The mileage reported on the expense report was for one-way instead of round trip, resulting in the employee being under-paid $112.

   B. An expense report inaccurately included an advance, resulting in a $95 under-reimbursement.

   C. An employee paid for taxi fare of $36 with a personal credit card and reported it as paid by P-Card, resulting in an under-reimbursement.

   Actions Taken: The errors were brought to the attention of the travelers for their resolution. Each was paid, after submitting corrected travel reports.

Over-reimbursement Corrected – Fourteen employees were overpaid a total of $823.

D. City Policy MFS 18 states "The City is self-insured for automobile liability and collision insurance, therefore there is no need to buy additional insurance coverage. The cost of collision damage waiver, theft or personal accident insurance, or GPS are not reimbursable." Three employees were reimbursed for rental car insurance, resulting in overpayment of $294. One employee was reimbursed $200, however since the supervisor approved the rental insurance, repayment wasn't requested.

E. City Policy MFS 18 states "Employees will not be reimbursed for upgraded airline seats including preferred seating in coach." An employee was reimbursed for upgraded airline seats, resulting in a claim of $73 that violated the policy.

F. City Policy MFS 18 states "Meals which are not part of the travel day, or which were included in the training/conference expense should be deducted from the GSA allocation." Seven employees made errors resulting in a total of $306 being over-reimbursed for meal per diems that should not have been claimed.

G. Four employees made minor errors resulting in a total of $150 being over-reimbursed. The errors were the result of being reimbursed for gas when mileage was claimed, priority boarding, paying for a meal by P-card, a currency conversion error and advanced funds being incorrectly reported on the expense report.

   Actions Taken: After each error (D-G, above) was brought to the traveler's attention by Audit staff and/or Finance, the employee repaid the City.

3. ***Departments need to improve travel planning to avoid excess costs of late registrations and increased hotel rates. Some departments may need to be restricted from making travel arrangements.***

   A. Improvements Needed

   The Employee Travel and Reimbursements Policy allows payment for reasonable lodging expenses.

   When the lack of planning results in hotel costs which exceed the initial conference hotel rate, MFS 18 requires the additional expenses to be justified in writing, and approved in advance by an appropriate level supervisor. (Approval following travel is a policy violation.) The cost of using a non-conference hotel for conferences requires justification and approval.

   Auditors questioned the following expenses (totaling $2,326), which reflected poor planning and/or lack of required justification and approval:

   - Fourteen employees registered late for a conference, resulting in higher registration costs totaling $665. Thirteen paid increased registration of $25 to $50 and another

        paid at the door – at a rate which was $75 higher than standard registration and $125 higher than early registration.

- Four employees did not make hotel reservations timely, resulting in lodging costs higher than the previously available conference rates. Excess travel costs totaling $560 were incurred.

- Four employees who were instructors at a conference chose to stay off-site to prepare for class, increasing travel costs $883.

- One employee booked a hotel for two nights prior to arrival (in error); resulting in additional costs of $218.

Actions Taken or Planned:

- New Travel Software was purchased in March 2018 and a pilot program will begin in November 2018.

- The new Travel Software will require travelers have an approval from supervisors in advance of any overnight travel.

- City Policy enforcement is expected to be embedded in the software. Software implementation is targeted for Spring 2019.

Recommendation 3A: These approval requirements should be stored online to document adequate advance planning, along with changes which also require approval; e.g., airline change fees, non-conference hotels and rental cars.

Finance Response: City purchased SAP Concur as the new software solution for employees' reimbursement of expenses including business travel. A phased roll-out begins in November with full implementation with all departments by Spring 2019. City policy enforcement will be embedded in the software within allowable parameters (i.e., documentation for all expenses, except mileage, required before submitting expense report for approval; loans reconciled prior to submittal of expense and no additional loans approved if employee has outstanding loans or unresolved past due travel requests). The updated policy requires pre-approval of travel requests for all overnight travel fifteen business days prior to departure, even when no loan is requested and no city P-card will be used during the trip. The workflow will route the request to the direct supervisor or designee, and signature authority, who are required to review the documentation and approve or reject the request prior to travel. The department's travel coordinator can also preview and advise the supervisor on the status of the request. SAP Concur will store all approvals and attached documentation and all will be accessible to Internal Audit and Finance.

B. Restrictions Required

When a department has demonstrated a lack of understanding, or inability to adhere to City travel policies, Accounts Payable may need to restrict the authority to book travel for its employees. For example, one department reviewed by auditors found the following:

An employee and his supervisor justified arriving two days before a conference, despite the City Policy disallowing the associated expenses. The Employee Travel and Reimbursement Policy (MFS 18) states at Section 2.B.4: "The City will not pay additional expenses resulting from arriving earlier….than necessary…"

The following details the position of the employee and his supervisor, along with auditors' findings.

- The traveler stated that he chose airfare of $466.90 for travel on Saturday, instead of Sunday airfare of $825. However, no evidence of the airfare difference was supplied – just a recollection of the airfare alternative, six months after the trip.

- The employee and supervisor believe that the total savings to the City was $17.14, although no pro forma was provided. The traveler and supervisor stated that this small savings was the only reason for the schedule chosen.

Auditors concluded that the City likely paid hundreds of dollars unnecessarily. Due to a lack of understanding, the employee inconvenienced himself and believed he could substitute a red eye flight for an extra day at the conference location, despite a clear City policy prohibiting this option.

Recommendation 3B: Finance-Accounts Payable should provide stricter oversight of the department in question and take action to restrict the department's ability to select its travel arrangements, to avoid excessive City expenses in the future.

Finance Response: Finance will provide training for this employee. Policy training, along with software training are both required for employees using Concur software. The software service contract also includes Concur's auditing services to assist with policy enforcement. Per current policy and practice, and with the pending updates to the city policy, department directors remain responsible for managing the department's travel expenditures and employee expense reimbursements based on business needs and available funding. Employees, direct supervisors and departmental cost approvers provide the first line of review and approvals. This design in internal control is key to ensuring that departments are managing their business needs, as well as their budgets.

Phase I implementation of SAP Concur does not include procurement of travel management company (TMC) services that could restrict the department's ability to select travel arrangements. TMC services could be included in phase II. Timing of phase II will be determined if and when funding is approved. The benefits of a third-party TMC include professional travel booking based upon City policy and coordination of flights with multiple

attendees at the best price available. The City could choose to require employees to use the travel management company in order to ensure the City receives the best price for flights and rental cars meeting the City's business needs, instead of relying on employees to be their own travel agent.

4. ***Accounts Payable has continued to process non-compliant submittals. Administrative non-compliance should be addressed more efficiently.***

While improvements have been made, department supervisors, travel coordinators and Accounts Payable staff should closely review expense reports and enforce policies.

The following examples detail administrative issues which require greater attention at the departmental level:

- Airfare, hotel or rental car – On 23 occasions, travelers did not include proper documentation, sometimes submitting a pending document for a flight which had not been finalized or hotel confirmation.

- Registration – While payment was verified through review of P-card documentation or MUNIS, 24 travelers did not include the required receipts with a reimbursement request.

- P-cards – At least 15 employees did not comply with P-card policies, as they relate to travel, including proper reporting and documentation requirements.

- Airline seat upgrades **–** Policy does not allow employees to be reimbursed for upgraded airline seats including preferred seating in coach. Auditors noted 12 instances where employees were reimbursed without an explanation. In one instance, the employee's explanation did not meet the requirements of a business justification. The aggregate reimbursement to 13 employees for non-compliant airline fares was $668.

- Unclaimed travel expenses – Policy requires all related expenses be submitted on a travel advance/expense report. Eleven instances were noted where an expense was not claimed on the travel expense report. (There was no over or underpayment – just not reported, as required.)

- Rental cars – Policy requires a business purpose explanation; seven violations were noted, with rental costs totaling $1,920.

- Travel authorization – Policy requires an employee to submit a travel authorization form for department approval prior to travel; 17 violations were noted, with two instances in which the authorization was submitted after travel occurred.

- Unused advanced funds – There were 16 instances totaling $2,523 where unused advanced funds exceeding $500 were submitted late. Of these, four instances totaling $1,562 were repaid over 120 days late.

- Advances – Six instances of non-compliance were noted; including lack of support for obtaining an advance or obtaining an advance for an unallowable expense.

- Personal Vehicle Usage – Policy requires the use of a City vehicle unless specific circumstances permit otherwise. Reimbursement of mileage without explanation violated Motor Pool Policy MFS 21, and was allowed seven times by AP. The aggregate of payments to employees for non-compliant personal vehicle usage was $1,881.

- Miscellaneous – A number of other violations should have resulted in rejection by AP, including airfare insurance, and missing support documentation for advanced funds.

Departments' failure to comply with existing policies creates inefficiencies – for AP, and for the departments.

Recommendation: Finance should give particular attention to the problem areas noted.

Finance Response: As noted above, internal controls are key and begin with the employee, direct supervisor and departmental cost approvers. Finance continues to seek ways to improve training and policy enforcement as evidenced by Finance's response to FY 2016 and FY 2017 employee expense audit findings. Because travel is so unique, Accounts Payable dedicated one Administrative Officer to providing an additional level of review and has trained all six Accounts Payable Technicians to review travel prior to processing payment requests. Finance will continue to spot check reports provided by departments.