



Audit Report
Employee Expense Reimbursements
April – June 2015
February 4, 2016

City Auditor's Office
Gregory L. McDowell, CPA, CIA

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Purpose and Scope

The intent of this audit was to determine whether the City's revised employee travel and reimbursement policy is effective and if employees' reimbursements were in compliance with City policies. For the audit period April 1, 2015 to June 30, 2015, we reviewed 100% of expense reimbursement transactions for 20 executives and 23 non-executive employees who were reimbursed the most from all departments.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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

The revised Employee Travel and Reimbursements policy, effective January 2015, has begun to achieve improved effectiveness and efficiencies. Employees, supervisors, Finance staff and Internal Audit need to continue their efforts to achieve a higher rate of compliance.

Summary Recommendations and Actions

As detailed beginning on page 2, the following findings, recommendations and action plans resulted from the audit.

1. Employees complied with expense reimbursement policies for 92% of tested reports.
2. Travel advances should be restricted to address the unintended processing inefficiencies, which resulted from the January 2015 policy revision re. City-wide meal per diems.
 - After a full year of experience with the revised policy, Management & Financial Services (M&FS) is reviewing the policy for any further changes which may be warranted.
3. Errors have continued to occur, requiring future audit follow-ups.
 - Employees reimbursed the City or provided supplemental documentation to resolve the audit findings. M&FS will work with departments to achieve a higher rate of compliance. Internal Audit will conduct regular follow-ups to track the expected improvements over time.

Background

The Employee Travel and Reimbursements Policy (FIN18) 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 new policy addresses the use of per diems based on the General Services Administration (GSA) guidelines for meals and incidental expenses, priority airline boarding and upgraded seating, and internet usage charges.

In the audit period, most of the employee expense reimbursements (totaling \$77,290 City-wide) were posted to the following accounts:

- Training, conferences
- Travel
- Project Expense
- Auto, other allowances (mileage)
- Other Materials/Supplies

Audit Findings and Recommendations

1. Employees complied with expense reimbursement policies for 92% of tested reports.

The new policy has brought consistency to the employee travel expense reporting process. Employees are required to follow per diem meal rates based on the GSA guidelines, therefore eliminating the submittal of receipts for meals, tips or incidental charges. The expense reports reviewed were reimbursed according to the GSA guidelines, with a 92% compliance rate. Some types of errors are avoidable. Compliance and reporting accuracy should improve over time, as employees become more familiar with the revised policy. Exceptions are noted below.

2. Travel advances should be restricted to address the unintended processing inefficiencies, which resulted from the January 2015 policy revision re. City-wide meal per diems.

Rather than reducing administrative processing, the actions by some departments' employees (and approved by supervisors) has resulted in additional work – by the department and by the Finance Office. A reasonable restriction of advances to major out-of-pocket expenditures (specifically, airfare and registration fees) would ensure that employees are not negatively impacted, while reducing the burden and inefficiencies which have been introduced unintentionally.

The January 2015 policy provided meal and incidental per diems to departments that had previously reimbursed actual expenses. Some departments reacted to the change by approving advances which covered only the per diem amounts, resulting in an increase of travel advances and a doubling of processing effort (advance and reimbursement) for travelers who newly began requesting advances. Using the Finance Office's records of eighty-eight travel advances (during the period April-July 2015), we noted the following:

- Thirty-three advances tested (38%) were “per diem only” advances. The average of the per diem only advances was \$159, with nine of them less than \$50.
- Fourteen per diem only advances (16%) were unused due to trip cancellation. Twelve advance checks were voided, while two had been cashed and subsequently repaid.
- Twenty travel advances (23%) resulted in unused funds totaling \$3,564. Eight of the 20 travelers complied with the policy which requires submittal of an expense report, including repayment of unused funds, within four days. One repayment of \$532.29, (prompted by auditor inquiry during this audit) was 189 days late. After omitting this outlier, eleven travelers made repayments an average 23 days later than the requirement.

Summary Rationale for Restricting Advances

- As noted above, the use of advances has resulted in avoidable processing inefficiencies, errors and untimely repayments. Over the past several months, departments have been requested by internal auditors and Finance Office staff to take action to reduce the unintended consequences of the new policy; however, the workload for the Finance Office was not reduced.
- Employees have not been adequately motivated to submit timely expense reports. When reimbursements are minimized or eliminated by use of advances, motivation to comply is further decreased.
- Untimely processing increases the chance of errors, due to the timing difference already existing between registration and travel to conferences. The already cumbersome manual process required to reconcile P-card transactions involving travel is exacerbated.
- Alternate payment methods are available.
- As previously identified in the audit of FY13 expense reimbursements, policies can prohibit employees from submitting claims for previously paid expenses, but policies alone cannot prevent such errors. One duplicate reimbursement of \$1,599.96 was reported for FY13, and this report notes a similar error of \$431.70.
- Reducing the amount of effort surrounding meal per diem advances should increase the efficiency of the Finance Office, allowing an increased concentration on travel expense report reviews.

Recommendation: Travel advances should be restricted to major out-of-pocket expenditures made by employees, which in the opinion of department management cannot be efficiently paid by alternate methods.

M&FS Response: After a full year of experience with the revised policy, M&FS is reviewing the policy for any further changes which may be warranted. We agree that more efficient processing is a desired outcome, and we will consider options for implementing the recommended change.

3. ***Errors have continued to occur, requiring future audit follow-ups.***

Policy violations and administrative errors have continued to occur. While these can best be corrected by improved departmental attention and Finance Office enforcement, Internal Audit will continue regular follow-ups to track the expected improvements over time.

Policy violations and administrative errors during the period audited are detailed below, along with corrective actions taken.

- A. An employee purchased airfare of \$431.70 with a personal credit card and was reimbursed for the cost in advance of travel. The final expense report did not deduct the previously claimed amount.

Action Taken: After the error was brought to the traveler's attention by Audit staff, the employee reimbursed the City.

- B. An employee was provided an advance of \$1,071.97, properly supported by estimated expenses for mileage, hotel, parking and per diems. The final expense report included \$59.36 for miscellaneous. However, City Policy does not allow such expenses without receipts.

Action Taken: After the error was brought to the traveler's attention by Audit staff, the employee reimbursed the City.

- C. An employee submitted an expense report claiming a full per diem when the travel day ended early. City Policy FIN 18 states "Meals which are not part of the travel day, or which were included in the training/conference expense should be deducted, using the GSA allocation." Therefore, the dinner allocation of \$29 should not have been claimed.

Action Taken: After the error was brought to the traveler's attention by Audit staff, the employee reimbursed the City.

- D. An employee submitted an expense report claiming a full per diem; however, the lunch for one day had been paid by another employee traveling to the same event. Therefore, the \$18 lunch per diem should not have been claimed.

Action Taken: After the error was brought to the traveler's attention by Audit staff, the employee reimbursed the City.

- E. An employee obtained a \$5,072 advance for a group of eight in May 2014. The final expense report was not completed until April 2015, and required a payment of \$310 to the employee. Departments' not reconciling expense reports timely increases the City's risk of loss of funds and creates inefficiencies within the accounts payable process.

Action Taken: The Department has expanded the management oversight process to ensure compliance with the City Travel Policy.

- F. Several employees' travel-related expenditures were not adequately documented or were not submitted timely. It is not possible to determine whether missing documentation was submitted, or improperly processed. During the transition to the new Policy, insufficient attention has been given to timely submittal of expense reports. Only when employees are held to the strict interpretation of the Policy can the City expect to achieve the highest level of compliance. For improved results, documentation for the following types of travel-related documentation and specific policy issues need closer attention by employees, supervisors and Finance staff:

- P-card expenditures and cash advances should be deducted from claims
- All receipts should be attached to expense reports
- Receipts submitted via P-card transactions should be uploaded to MUNIS TCM (Tyler Content Management, for the MUNIS computer system)
- The business purpose of airline change fees should be explained
- Missing receipts should be noted and fully explained

Action Taken: As noted above (A-E), errors have been corrected. Administrative deficiencies (F, above) have been brought to the attention of all staff involved in handling the paperwork, since it is often not possible to determine where the process broke down.

Recommendations:

- Departments should review employees' reimbursement claims to ensure they comply with City Policy, prior to submittal to Finance.
- Finance staff should reject any claim which does not comply with the Employee Travel and Reimbursements Policy.
- M&FS should consider whether the current four-day requirement for expense report submittal should be revised, or if it should be enforced.

M&FS Response: M&FS agrees and will work with departments to achieve a higher rate of compliance. Staff will also evaluate the four-day requirement and implement any changes by the end of the fiscal year.

Action Plan: Internal Audit will conduct regular follow-ups, emphasizing employees' and departments' primary responsibility to submit fully compliant reimbursement requests.