



**Audit Report**  
**FY 2016 Employee Expense Reimbursements**  
**April 24, 2017**

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

**Audit Report**  
**FY 2016 Employee Expense Reimbursements**  
**April 24, 2017**

**Purpose and Scope**

The intent of this audit was to determine the effectiveness of the City's revised employee travel and reimbursement policy and whether employees' reimbursements were in compliance with City policies.

The audit was conducted in two phases. The first half of FY16 (July-December 2015) was reviewed initially, and an interim report was provided to City management in June 2016. The second half of FY16 (January-June 2016) was subsequently reviewed. Findings and recommendations from both efforts have been combined, resulting in this full FY16 report.

For the audit period July 1, 2015 to December 31, 2015, auditors reviewed 100% of expense reimbursement transactions for 42 executives, and 51 non-executive employees who were reimbursed the most from all departments. For the audit period January 1, 2016 to June 30, 2016, we reviewed 100% of expense reimbursement transactions for 39 executives, and 29 non-executives who were reimbursed the most from all departments. Auditors also examined a sample of expense reimbursements from Finance's travel advance file. In addition, for the period January to June 2016, airfare booked through AAA and 100% of Planning Department employees' travel expense reports were reviewed.

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**

By nature of our position as public servants and the perception of these expenses as discretionary, City employees need to exercise the highest level of care when submitting travel reimbursement documentation. Educational efforts by Finance staff, along with several internal audits, have been insufficient to change employee behaviors. Departments must take stronger enforcement actions, consistently following City-wide policies and documentation requirements. In addition, a technology-based travel reporting solution is required to reduce the administrative burdens and improve compliance levels.

### **Summary Findings and Recommendations**

For fiscal year 2016, employee expense reimbursements for training, travel and meals which made up the audit universe for this review totaled \$933,255. From these expenses, auditors tested \$276,428, or 30% of the dollars expended. In past and current audits, errors totaled between 2% and 3% of the tested transactions. For this period, 2% of the reported dollars were inaccurate. Many of these were low dollar items; however, two employees were required to reimburse more than \$1,700 each.

The following findings are detailed, beginning on page 3:

1. Errors and travel expense reporting violations were noted for 25% of travelers tested.
2. Travel advances should be more closely monitored to ensure they are properly reflected in the related expense reports, and all unused funds are deposited timely with Revenue.
3. Departments must take stronger enforcement actions to change employee behavior. Also, a technology-based solution should be adopted.
4. Departments should more closely review and enforce compliance with travel policies before submitting employee reimbursement requests to Accounts Payable. Further study is required to determine the appropriate level of enforcement actions.

### **Background**

The Employee Travel and Reimbursements Policy (MFS 18, previously FIN 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 new policy addresses the use of per diems based on the General Services Administration (GSA) guidelines – although deviating from the 75% first and last day travel convention – for meals and incidental expenses, priority airline boarding and upgraded seating, and internet usage charges.

The Employee Travel and Reimbursements Policy was further revised effective November 1, 2016, with the primary changes related to advances, and timely completion of reports.

As a follow-up to the first major policy revision in 25 years, Internal Audit reviewed employee expense reimbursements for the period April 1, 2015 to June 30, 2015, issuing a report on this period in February 2016. The audit concluded that employees complied with expense reimbursements policies for 92% of the tested reports. The report also stated that errors continued to occur, requiring future audit follow-ups, and that travel advances should be restricted to address unintended processing inefficiencies.

In FY16, employee expense reimbursements totaling \$933,255 were posted to the following accounts. Internal Audit tested \$276,428 (30%) of the transactions.

- Training conferences and meetings
- Travel and meetings
- Meals and subsistence – (tested for July – December 2015 only)
- Employee reimbursement training

In addition, employees received mileage reimbursements totaling about \$370,000, which were not tested in this audit.

### **Audit Findings and Recommendations**

#### **1. Errors and travel expense reporting violations were noted for 25% of travelers tested.**

Auditors selected 42 executives and 51 non-executives for travel review in the period July to December 2015, plus 39 executives and 29 non-executives for the period January to June 2016. Most of the executives were the same in both periods, while most non-executives were different in the two periods. After observing a high error rate among Planning Department travelers sampled in the first period, the audit was expanded to include all Planning Department travelers in the second period.

Combining the samples, the audit examined the documentation for 142 unique travelers in FY 2016. As detailed in finding #3 below, 35 employees required payments to or from the City to resolve reporting errors. Additionally, travel advances and AAA airline bookings were tested, but those reviews were not extended to the employees' full year activity.

Also, administrative errors included five department or deputy department heads submitting expense reports which were approved by direct reports, or not approved at all. These improperly submitted reports were processed by Accounts Payable. Another department head did not submit a required expense report to Accounts Payable after administrative staff incorrectly assumed no report was required due to expenses being paid by P-card. Auditors noted the exception while reviewing AAA airfare bookings.

**Conclusion:** Audits covering periods beginning in FY13 have consistently reported reporting errors and policy violations. The travel policy has been revised, training has been increased and departments have been encouraged to increase oversight. However, these actions have been insufficient to change employee behaviors.

**2. Travel advances should be more closely monitored to ensure they are properly reflected in the related expense reports, and all unused funds are deposited timely with Revenue.**

The January 2015 policy required all unused funds related to a travel advance to be deposited with the Revenue Division within four working days after returning to work. The following results relate to testing focused on the period July through December 2015.

- Twenty-one travel advances resulted in unused funds totaling \$3,726. Three of the 21 travelers complied with the policy which required submittal of an expense report including repayment of unused funds, within four days of returning to work. Two repayments totaling about \$127 were over 100 days late and one repayment of \$703 was 81 days late. After omitting those outliers, fifteen travelers made repayments totaling \$2,225 an average of 14 days later than the requirement.
- Finding 3.D. on page 5 notes one employee's \$2,406 advance which was not reflected in the subsequent travel expense report.
- Auditors noted 112 advances where an expense report had not been received by Accounts Payable. Of those, 24 travelers had advances totaling \$24,213 which were over 91 days late in submitting an expense report.

**Actions Taken:** Subsequent to the June 2016 Interim Audit Report, Management & Financial Services (M&FS) revised the four-day submittal requirement, along with the following changes, effective November 2016:

- Advances are required to be a minimum of \$150, with some exceptions
- Unused travel advances must be deposited with Revenue within 15 business days after end of business travel
- Outstanding and unresolved travel reports more than 30 days delinquent result in no further travel authorizations for the out-of-compliance employee
- The City's Travel Tracking Form is provided on Cnet

**Recommendation 2A:** In multiple audits, the use of advances has been found to result in errors and inefficiencies. M&FS-Finance should monitor improvements due to policy changes and enforcement, and initiate further corrective action, as needed.

**M&FS Response:** M&FS concurs with the recommendation. In addition to the changes to Employee Travel & Reimbursements Policy (MFS 18) in FY17, M&FS now provides monthly training classes open to city employees and other department-specific training upon request. Enhancements to the excel spreadsheet include macros that auto-populate the expense reports with the travel advance totals, but that automation will only work if the employee uses the same file for the expense report. M&FS has submitted a request in the FY2018 Community Investment Plan (CIP) for funding of a technology based solution.

**Recommendation 2B:** M&FS and Human Resources-Payroll should work together to establish a policy and procedure which results in the deduction of advances from employees'

paychecks, when expense reports associated with advances are not submitted timely, i.e., within 15 days of travel completion, as the policy requires.

**Human Resources Response:** HR already has a process in place to work with departments to recoup overpayment of wages. HR could work with M&FS to implement a similar process, based upon policy compliance expectations set by M&FS. HR would recommend that a representative from the City Attorney's Office also be involved in these discussions.

**M&FS Response:** M&FS, Human Resources and the City Attorney's Office are researching options. The recommended improvement may require changes to the ERP system and/or will need to be included with the technology solution for employee reimbursement and expenses. A definitive timeframe for a new process cannot be determined at this time; however, M&FS and HR are committed to continuous process improvement and will keep Internal Audit and the City Manager's office apprised of the progress and outcomes.

**Internal Audit Follow-up:** *This recommendation and response will be tracked on the Auditor's Recommendation Status Report, and reviewed with the City Manager's Office periodically.*

**3. Departments must take stronger enforcement actions to change employee behavior. Also, a technology-based solution should be adopted.**

Policy violations and administrative errors have continued to occur. These can best be corrected by improved departmental attention and M&FS-Finance Office enforcement. The following under-payments and over-payments in FY16 were noted.

**Under-payments Corrected** – Nine employees were underpaid a total of \$1,061.

- A. An employee paid for hotel costs of \$434 with a personal credit card, but reported it as paid by P-card, resulting in an under-reimbursement.
- B. Two employees submitted expense reports that included reimbursement for one-way instead of round trip mileage, resulting in underpayments of \$182 and \$176.
- C. Six employees made minor errors, resulting in a total of \$269 in underpayments. The errors were a result of submitting the wrong hotel receipt, submitting a taxi fare paid with a personal credit card but reporting it as paid by P-card, misclassifications of mileage and airfare, a miscalculation of the per diem for meals, and other arithmetic miscalculations.

**Actions Taken:** The errors were brought to the attention of travelers for their resolution.

**Over-payments Corrected** – Twenty-six employees were overpaid a total of \$4,704.

- D. An employee was provided an advance of \$2,406. The final expense report did not deduct the advance amount paid. Also, the registration fees of \$655 paid by the traveler

(personal credit card) were not included on the expense report, resulting in overpayment of a net \$1,751.

- E. An employee was provided an advance for airfare and car rental expenses which were paid by P-card. On the final expense report, the P-card payments were not deducted, resulting in overpayment of \$1,719. The employee's original submittal was inaccurate. Both the supervisor and Accounts Payable staff processed the reimbursement in error. The processing for this travel was complicated by having one traveler submit documentation for a group of four travelers attending the same conference. Further, a cash advance of \$1,500 was obtained by the one and distributed among the four.
- 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, using the GSA allocation."
- An employee submitted a full per diem claim when travel had not started, and for several meals provided in the conference fee. Therefore, the full day and multiple partial day per diems totaling \$267 should not have been claimed.
  - An employee submitted an expense report for a group of three employees, claiming full per diems for each. However, breakfast was provided by the conference being attended. Therefore, the aggregate breakfast allocations for three travelers of \$135 should not have been claimed.
  - Five employees claimed full per diems for days on which the travel began mid-morning, or in the afternoon. Therefore, meal allocations totaling \$154 for the employees should not have been claimed.
  - An employee claimed per diem when lunch was included in a conference registration, resulting in an \$18 overpayment.
- G. An employee made multiple errors in reporting per diem, hotel and registration fees, resulting in a total overpayment of \$231.
- H. An employee submitted a hotel reservation confirmation as support for a five-night stay. When requested by auditors, the employee supplied a hotel receipt for a four-night stay, and repayment of \$133 for one night which had not been incurred. The employee's original submittal was inaccurate. Both the supervisor and Accounts Payable staff processed the reimbursement with inadequate documentation.
- I. Errors in reporting hotel costs and P-card expenditures resulted in an overpayment of \$108 to one employee.
- J. Eight employees made minor errors, resulting in a total of \$188 in overpayments. The errors were due to claims submitted for priority seats, mileage when a City vehicle was driven and per diem for meals.

**Actions Taken:** After each error (D-J, above) was brought to the traveler's attention by Audit staff, the employee repaid the City.

K. 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. Insufficient attention continues to be 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 Accounts Payable 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 rental cars, airline change fees, priority seating, airplane Wi-Fi and room upgrades should be explained (priority seating frequency has increased, while required explanations were not always provided)

**Action Taken:** As noted above (A-J), errors have been addressed. Administrative deficiencies (K, 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. Also, Accounts Payable staff continually addresses these issues in regular meetings with departmental travel liaison staff.

**Recommendations:**

- While Accounts Payable's efforts have helped improve compliance, a technology solution is needed, linking travel reports and P-card activity. Also, technology could enforce the existing policy requirement to complete travel reporting by using the initial approval form. Following this policy auto-populates the expense form, reducing the potential for errors.
- The travel policy should be revised to require each traveler to complete individual travel documents, rather than allowing combined expense reporting.
- The continuing misapplication of meal per diem exceptions has led to excessive administrative effort, without improved results. Therefore, the federal GSA approach to use 75% of per diems for the first and last days of travel should be re-introduced. (The GSA approach was initially put in place in January 2015, but subsequently abandoned at management direction.)

**M&FS Response:** M&FS concurs with the recommendation for a technology-based solution. Certain enhancements have been made to Excel spreadsheets in use, as noted in our response to #2, above. In the interim, the ability to enforce one employee per travel report is simpler with the enhanced Excel spreadsheet. Multiple staff can combine travel reports only upon approval by M&FS and the Department Director. M&FS has added "time of departure" and "time of return" to the per diem worksheet, which will help with determining



the meals needed on both days. Until an automated solution has been created, M&FS does not intend to address the recommended first and last day per diem approach.

***Innovation & Technology Response:*** I&T concurs with Internal Audit's recommendation that the further application of technology in these areas can help to enforce existing policy and further reduce employee reporting errors. However, this approach will not completely eliminate errors and the continued diligence of departments to enforce policy and procedure will still be necessary. More analysis is needed to determine the cost-benefit of pursuing additional technology in these areas.

***Internal Audit Follow-up:*** *This recommendation and response will be tracked on the Auditor's Recommendation Status Report, and reviewed with the City Manager's Office periodically.*

**4. Departments should more closely review and enforce compliance with travel policies before submitting employee reimbursement requests to Accounts Payable. Further study is required to determine the appropriate level of enforcement actions.**

The violations in Finding #3 should have been identified and resolved by departments, reflecting the need for more consistent and aggressive review prior to submitting expense reimbursement requests to Finance.

The following issues are not easily resolved and require study by M&FS and other departments to develop an approach for the future which is not overly burdensome, but ensures the appropriate level of accountability:

**A. Excessive Hotel and Rental Car Expenses**

In five instances between October 2014 and January 2016, an employee chose to stay at one hotel chain in which the employee was an elite member, even if the conference hotel was less costly and would have negated the need for a rental car. In one case, parking was paid at both the hotel and the conference site, along with gas and tolls, resulting in 272 miles driven and total vehicle-related expenses of about \$415. In another instance, the employee spoke at a meeting which the employee attended only on Tuesday afternoon. However, the traveler explained that limited flights required him to arrive Sunday morning and depart Wednesday morning. Auditors discredited that explanation, finding multiple daily direct flights and many others with reasonable connections. The traveler could have made the trip in one day, rather than staying three nights at the preferred hotel when alternatives were located much closer to the meeting site, and driving a rental car 212 miles.

***Action Taken:*** The finding was referred to management.

**B. Excessive costs and inconsistencies among large group of conference attendees**

Eleven City employees, including four from one department, attended a professional conference in Dallas in October 2015. Questioned expenses include the following:

- One employee's three-night hotel stay cost \$849, while most employees incurred hotel expenses totaling \$668. The employee with higher hotel costs registered after the conference hotel was full.
- The same traveler with the high hotel costs had difficulty booking air travel, resulting in excessive airfare costs. The traveler attempted to book in advance, using AAA at a cost of \$333, but the flight was not confirmed. (The department should have followed up an incomplete purchase order which had resulted.) A replacement flight was booked for \$646. The traveler did not supply the itemized receipt for air travel, and did not complete the Lost Receipt form. Accounts Payable should have rejected the expense report and enforced the existing policy. Subsequent to Audit inquiry, AP followed up with the department to obtain alternate supporting documentation.
- Only four employees, all from the same department, did not deduct meals provided by the conference, as prescribed by City policy. In response to audit inquiries, some employees noted dietary needs or scheduling conflicts.

**Action Taken:** The department has worked with supervisors to obtain a better understanding of the policy, and has committed to improvements. Two employees reimbursed portions of meal per diems. One employee was required to repay the dinner portion of a claimed per diem (for lunch and dinner), attributable to time spent at the airport trying to resolve the airfare issue noted above.

**Conclusion:** Departments need to improve planning efforts to avoid extraneous costs. Limits should be set for exceptions deemed necessary by the department head.

C. Accounts Payable processed non-compliant submittals

Many expense reports have been processed and approved by Accounts Payable which violated existing policy, including:

- Approval by a direct report rather than a City Manager's Office executive, as required for Department Heads
- Actual meal costs instead of per diems
- Lack of explanations for rental cars
- Missing documentation for various P-card expenditures, including airfare
- Hotel and airfare advances without documentation

**Actions Taken:** Accounts Payable (AP) staff has continued to educate travelers and believes that compliance with travel policies is improving. A travel liaison group has been formed and AP management regularly reviews issues with departmental representatives. Other process improvements include the implementation of one citywide checklist to be used by all travelers, and one SharePoint site for citywide tracking.

**Conclusion:** Accounts Payable's actions have resulted in improvements, but departments need to be held accountable for implementing further reviews and controls.