



Audit Report
FY 2017 Employee Expense Reimbursements
March 28, 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, 2016 to June 30, 2017, we reviewed 100% of expense reimbursement transactions for 55 executives, 63 non-executive employees who were reimbursed the most from all departments, and 100% of Planning Department employees travel expense reports. Auditors also examined a sample of expense reimbursements for conferences where three or more City employees attended, and a sample of employees who had exceptions in the FY16 employee expense reimbursements audit.

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

Travel expense policy compliance has improved. The administrative burden upon Finance-Accounts Payable staff continues to be excessive due to the lack of attention at the departmental level.

Summary Findings and Recommendations

For fiscal year 2017, the employee expense reimbursements for training and travel which made up the audit universe for this review totaled \$1,036,261. From these expenses, auditors tested \$230,456 or 22% of the dollars expended. For past audits, dollar errors totaled between 2% and 3% of the tested transactions. For this period, 0.8% of the reported dollars were inaccurate.

The following findings are detailed, beginning on page 3:

1. Monetary inaccuracies were less than 1% of the dollars tested, while the number of claims with at least one error was about 7%.
2. Of 145 employees reviewed, two were underpaid a total of \$365 and eight were overpaid a total of \$1,449.

3. Departments need to improve travel planning to avoid excess costs of late registrations, increased airline rates, and rescheduling.
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. Substantive changes included the following:

- Clarification of the need for travel forms for overnight stays
- Advance minimum set at \$150; with exceptions
- Requirement to include P-card statement or Munis report, in addition to receipts
- Clarity regarding reimbursable and non-reimbursable expenses
- Reference to new Motor Pool Policy
- Extended the submittal requirement from four days to fifteen, following travel completion

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

In FY17, employee expense reimbursements totaling \$1,036,261 were posted to the following accounts:

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

Audit Findings and Recommendations

1. Monetary inaccuracies were less than 1% of the dollars tested, while the number of claims with at least one error was about 7%.

The FY17 expense reports reviewed were reimbursed with a 99.2% compliance rate, an improvement over prior years. The error rate for claims with an inaccurate monetary claim was about 7%, also an improvement.

The audit examined the documentation for 145 unique travelers in FY17. As detailed in finding #2 below, ten employees required payments to or from the City to resolve reporting errors.

2. Of 145 employees reviewed, two were underpaid a total of \$365 and eight were overpaid a total of \$1,449.

Traveling employees and department reviewers have improved reporting accuracy compared to prior audits. Improved compliance can partly be attributed to implementation of monthly training classes by Finance-Accounts/Payable staff. The following under-reimbursements and over-reimbursements in FY17 were noted.

Under-reimbursement Corrected – Two employees were underpaid a total of \$365.

- A. An employee paid for airfare of \$333 with a personal credit card but reported it as paid by P-Card, resulting in an under-reimbursement.
- B. An employee paid for hotel parking with a personal credit card but did not include the cost on the travel expense report, resulting in an under-reimbursement of \$32.

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

Over-reimbursement Corrected – Eight employees were overpaid a total of \$1,449.

- C. An employee's conference registration fee of \$600 was paid directly to the vendor. The final expense report did not deduct that amount as an advance, resulting in overpayment of \$600.
- D. An employee made multiple errors in reporting per diem, baggage and parking fees resulting in a total over-reimbursement of \$226.
- E. City Policy MFS 18 states "The City will pay lodging for the minimum number of nights required to conduct the assigned City business." An employee arrived at a conference two days before the conference began, incurring excessive hotel and per diem costs for the extra night of travel, resulting in a claim of \$178 that violated the policy.

- F. City Policy MFS 18 states “Travel expenses paid by P-Card must be included on the travel expense report.” An employee did not include \$174 in P-Card expenses on the travel expense report submitted, resulting in an over-reimbursement.
- G. 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 \$108 that violated the policy.
- H. An employee was reimbursed for excessive tips during business travel and meal per diems that should not have been claimed, resulting in an over-reimbursement of \$51. (Additional issues related to this expense claim are addressed in Finding #3, as it relates to poor planning and lack of justification.)
- I. Two employees made minor errors resulting in a total of \$112 being over-reimbursed. The errors were the result of submitting the wrong hotel receipt and meal per diems that should not have been claimed.

Actions Taken: After each error (C-I, above) was brought to the traveler’s attention by Audit staff, the employee repaid the City.

3. **Departments need to improve travel planning to avoid excess costs of late registrations, increased airline rates, and rescheduling.**

The Employee Travel and Reimbursements Policy allows payment for reasonable transportation expenses. Employees are expected to use the most economically feasible mode of transportation giving consideration of time constraints, productive hours and distance involved.

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, which reflected poor planning and/or lack of required justification and approval:

- An employee completed early registration in April 2016 for a July 2016 conference in Washington, D.C. The traveler did not book the airline flight until 15 days prior. The result was a poorly justified itinerary to Baltimore-Washington International, excess transportation costs, an extra hotel night costing \$239 and an extra per diem charge. The return flight was nearly 24 hours following the conference completion. In response to audit inquiry, the department affirmed its approval of all expenses, but later required the employee to make a partial repayment of \$50.50 for excessive tips (40-60% of local transportation expenses) and a portion of the per diem applicable to dinner on the extra day. The department justified the handling of airfare. However,

alternate purchase methods are readily available, including the use of AAA or a department's P-Card. In addition, an advance could have been approved to allow a more economical airfare purchase price two months earlier.

- An employee returned from a conference early to attend a meeting, resulting in increased travel costs of \$479 for rebooking airfare.
- On separate occasions, three employees did not make hotel reservations timely, resulting in lodging costs higher than the previously available conference rates. Excess travel costs totaling \$822 were incurred.

Actions Taken or Planned:

- The City Travel Coordinator teaches monthly Travel Training classes.
- New Travel Software was purchased in March 2018 and implementation is expected to be completed before calendar year-end.
- City Policy enforcement is expected to be embedded in the software.

Recommendation: M&FS Finance-Accounts Payable should continue to increase its Policy enforcement efforts. Concurrent with the new Travel Software, M&FS should consider a policy change which requires departmental authorization prior to travel. These approvals 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.

M&FS Response: M&FS concurs with the recommendation to increase policy enforcement efforts. Financial Services included a request for an additional position to support these efforts in the FY19 budget. The November 2016 policy changes (noted in this report), in conjunction with FY16 audit report published in April 2017, have resulted in additional attention to travel expense details and improvements in the quality of reports. The improvements since November 2016 and the assignment of departmental travel coordinators reflect commitment to improvement by both M&FS-Finance and departments.

As of March 2018, the City purchased new travel software and implementation should be completed before calendar year-end. City policy enforcement will be embedded in the software within allowable parameters. M&FS will consider a policy change which requires departmental authorization prior to travel, and addresses required documentation during the implementation of the software. M&FS will continue to emphasize appropriate planning in the monthly travel training classes.

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

Improvements have been made, but Departments' over-reliance upon Accounts Payable staff to enforce policies places too much burden upon the final approval step.

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

- Airfare – On 35 occasions, travelers did not include proper documentation, sometimes submitting a pending document for a flight which had not been finalized.
- Registration – While payment was verified through review of P-card documentation, 18 travelers did not include the required receipts with a reimbursement request.
- P-cards – At least 27 times, employees did not comply with P-card policies, as they relate to travel, including usage and documentation requirements.
- Timely Submittal – There were 19 instances of late expense report submittal. Based upon prior audit results, this audit had given a high level of attention to the Planning Department. While two other departments each had two violations, the Planning Department frequently failed to submit expense reports timely. On 15 occasions, the supervisor approval was at least 30 days subsequent to the employee's return. Seven reports were signed more than 90 days following.
- Advances – Eighteen instances of non-compliance were noted, including the failure to clear the advance within 15 days of return to work, lack of support for obtaining an advance or obtaining advances for non-approved expenses.
- Rental Cars – Policy requires a business purpose explanation and advance approval; six violations were noted, with rental costs totaling \$2,606.
- Approvals – Policy requires approval by a higher level person than the traveler (or by the AP supervisor). On four occasions, a manager obtained a signature of a direct report; those should have been rejected by AP.
- 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 four times by AP.
- Miscellaneous – A number of other violations should have resulted in rejection by AP, including airline seat upgrades, excessive tips and per diems, and the reimbursement of rental car insurance, which is specifically disallowed.

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

Recommendation: To improve efficiency, and avoid adding AP staff to address a problem which departments are responsible for, AP should immediately reject expense

reimbursement claims which do not follow City policy, and require resubmittal under a higher-level department supervisor's signature.

M&FS Response: As noted in the report, departments are responsible to review and approve employee expense reimbursements prior to submittal to Accounts Payable for payment. M&FS concurs with the recommendation to reject expense reimbursement claims which do not follow policy. M&FS will include the recommendation in the next policy update, as well as in the configuration of the new software. In addition, the software provides over 200 reports including queries based on parameters. During implementation, M&FS will consult with Internal Audit to clarify the recommended types and timeframes for reports to improve efficiencies.

M&FS will consider requesting funding for phase II of the travel software project to implement a travel management company embedded in the software to increase compliance, assist with consistent best price for airfare, and reduce administrative overhead costs.