



Educational Reimbursements 2017-2018



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Educational Reimbursements Audit

Executive Summary

Purpose

This audit was conducted to determine whether adequate controls exist to ensure employees are accurately and appropriately reimbursed for education.

Background

Between January 1, 2015 and December 31, 2018, an average of 293 employees have received approximately 580 reimbursements annually.

The Educational Assistance Policy (HR18) was last updated January 1, 2006. Its objective states “By promoting a climate of lifelong learning, the City of Charlotte seeks to develop an educated and highly skilled workforce that will move the City toward accomplishment of its mission and goals.”

Each department has administered the program independently. This has led to various interpretations of the policy and provided conflicting messages to employees. However, efforts have been introduced to standardize core functions within Human Resources.

Conclusion

The policy should be updated for consistency, and administered citywide by Human Resources.

Highlights

- The policy should be updated to improve consistency across the city.***
 - The policy has not been updated since January 1, 2006, allowing departments to administer the program differently, misinterpreting it and improperly reimbursing employees.
- Employees were reimbursed without adequate documentation.***
 - Employees received reimbursements without providing adequate documentation.
- Employees were not reimbursed properly some of the time.***
 - Employees were not reimbursed for eligible expenses and others were reimbursed for non-eligible expenses.
- Departments did not consider the relevancy of individual classes to employees' current positions to determine taxability.***
 - Departments did not distinguish between relevant and non-relevant classes eligible for tax exemption, taxing all employees receiving greater than \$5,250.

Recommendations

- The policy should explicitly state where the benchmark for tuition and fees is. A definition of the eligible fees for reimbursement should be included in the policy.
- Human Resources should supervise the administration of the policy and verify all documentation is being received to ensure reimbursement uniformity citywide.
- Eligible expenses must be accurately paid.
- The Human Resources attorney should determine whether the City is complying with IRS code.

Actions Planned

An updated policy that will ensure citywide uniformity is being drafted and will have a citywide implementation date of July 1, 2020. HR will oversee Educational Reimbursements for all Departments.

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Background

The Educational Assistance Policy (HR18) was last updated January 1, 2006. Its stated objective is:

“By promoting a climate of lifelong learning, the City of Charlotte seeks to develop an educated and highly skilled workforce that will move the City toward accomplishment of its mission and goals.”

Each department has administered the program independently. This has led to interpretations of the policy and provided conflicting messages to employees. However, efforts have been introduced to standardize core functions within Human Resources (HR). As noted in the Proposed Fiscal Year 2019 Budget by the City Manager’s office, an outside consultant recommended centralizing processes that should be performed within HR. The proposed budget recommended the governance structure be revised for consistency across departments, and to update policies.

The following table denotes how the total educational reimbursements and amounts have been issued annually.

Category	2015	2016	2017	2018	2019 ¹
Employees	304	287	291	290	298
Reimbursements	604	579	571	564	596
Totals	\$ 627,163	\$ 674,556	\$ 707,114	\$ 752,796	\$ 791,557

¹ Jan 1, 2019 through Sep 30, 2019.

Objective

This audit was conducted to determine whether adequate controls exist to ensure employees are accurately and appropriately reimbursed for education.

Scope, Methodology, and Compliance

Scope

To ensure broad coverage across all city departments, focusing on employees with multiple reimbursements, auditors judgmentally selected 189 individual reimbursements made to 86 employees during the calendar years 2017 and 2018. The initial testing was expanded to include a larger sample of employees with reimbursements over \$5,250 after possible errors above this IRS threshold were noted.

Methodology

Auditors reviewed the following:

1. Total educational reimbursements from January 1, 2017 through December 31, 2018.
2. Available documentation, including applications, transcripts, receipts, etc. for the sample of employees receiving reimbursements during calendar years 2017 and 2018.
3. University and college tuition rates and fees for the schools attended by employees.
4. Departmental policies and procedures, if available.
5. Minimum job qualifications for employees' positions.

Compliance

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.

Findings and Recommendations

1. *The policy should be updated to improve consistency across the city.*

Policy HR18 was last updated on January 1, 2006. Each department administered the educational assistance program differently, leading to misinterpretation of the existing policy and improper reimbursements. The following issues were noted:

A. *Contradictory requirements for tuition rates within the City policy*

The policy states that tuition should “not exceed the North Carolina University system or the North Carolina Community College system.” However, a memo dated January 12, 2006, attached to the policy states “employees attending colleges other than UNCC [University of NC Charlotte] should align their reimbursements with UNCC’s rates.” The policy references both and the rates between UNCC and the North Carolina University system (which includes several schools) are not the same. Most departments used UNCC tuition rates when an employee attended an institution that was not UNCC; however, there were instances where reimbursements were not based on the UNCC rate. There were 32 examples of inconsistencies including:

- Reimbursements were made to employees based on rates of the NC University system.
- Reimbursements were made based on rates for out-of-state schools.
- Online courses were reimbursed as if they were regular courses rather than distance learning rates at UNCC.
- A flat amount was reimbursed to an employee that did not correspond to the school attended nor UNCC.

B. *Annual Rates not updated by Human Resources*

The policy states that the HR Key Business Unit (Departments were previously referred to as Key Business Units) will notify key businesses annually of the reimbursement rates of the North Carolina University system and the North Carolina Community College system. This was not completed during the audit periods. Although the on-campus Master’s and Bachelor’s degree programs at UNCC are comparable statewide, the Online/Distance Master’s and Bachelor’s programs offer limited degrees forcing employees to consider other institutions.

C. *Inconsistent reimbursement of required fees*

The current policy does not define the required fees eligible for reimbursement, particularly when employees are attending schools with a different set of required fees due. In addition, the policy does not adequately define the meaning of fees. Auditors noted the following examples:

- Reimbursements were based on rates other than UNCC, including in-state and out-of-state schools.

- Reimbursements were based on a combination of both UNCC and the attending school's fees.
- Reimbursements were made without specific documentation or syllabus to ensure proper books were purchased for classes.

D. Variations of eligibility within department understanding or policies

The policy states that Key Business Executives (Departments were previously referred to as Key Businesses) or their designees will determine eligibility. Departments have separate policies that contradict or are not explicitly defined in the City policy. The following variations were noted:

- The number of courses allowed for reimbursement in a semester ranged from one to six.
- There are eligibility requirements for reimbursements during probationary period or up to six months after hire.
- The employee was not reimbursed if they left the department for any reason before final approval of reimbursement.
- Employees were not allowed reimbursements when obtaining a Master's degree.
- There is no time frame to submit paperwork and receipts for reimbursement as well as no time period in which employees will be reimbursed for passed classes. During the review, reimbursement requests were submitted in an untimely manner ranging from three months to six years after courses had been taken.
- The policy has no length of required employment after receiving a reimbursement. The chart below reflects total reimbursements and the number of employees who terminated employment in under 12 months.

Category	2017	2018
Employees	291	290
Terminations within 12 months	11	9
% Terminations within 12 months	3.8%	3.1%
Terminations < 30 days	2	2
% Terminations < 30 days (of total terminations)	18.2%	22.2%

Recommendation A: The policy should explicitly state whether the benchmark for tuition and fees are with the NC System or UNCC. The Educational Reimbursement form should include the employee's purpose of pursuing the degree as well as how each course is beneficial to the City.

Recommendation B: HR should review and update tuition rates annually.

Recommendation C: A definition of the eligible fees for reimbursement should be included in the policy. The fees at institutions outside of UNCC and the NC System should be reviewed for appropriate reimbursement.

Recommendation D: Human Resources should supervise the administration of the policy and verify all documentation is being received to ensure reimbursement uniformity citywide. The policy should clearly determine eligibility across all departments including:

- The number of courses allowed to be taken during a specific time frame/semester/year.
- Whether reimbursements should be allowed during the probationary period.
- Whether reimbursement will occur if employee transfers departments.
- Whether Master's degree programs are allowed.
- A time frame to turn in documentation to receive a reimbursement as well as one for departments to pay employees.
- Length of required employment after receiving a reimbursement and repayment plans for individuals who terminate before employment requirements are completed.

Value Added: Compliance; Risk Reduction; Efficiency

Human Resources Response: Agree. Updated policy is being drafted and will have a citywide implementation date of July 1, 2020. HR will oversee Educational Reimbursements for all Departments to ensure uniformity citywide.

2. Employees were reimbursed without adequate documentation.

According to the policy (HR 18), employees receive pre-approval for courses by filling out the Application for Educational Reimbursement form and submitting it in accordance with the department requirements. To be reimbursed, employees are required to submit an official grade report or certified transcript after every \$2,000 of reimbursements. Receipts for all reimbursable costs and the completed Application for Educational Reimbursement form should be submitted. In addition, the employee must receive academic credit and a grade of C or higher in undergraduate courses, B or higher in graduate courses, and pass in pass/fail courses. The following issues were noted:

- Twenty-two certified transcripts were not received after \$2,000 in reimbursements had been issued.
- Thirteen instances where approval was signed after class began or was finished.
- Twenty-five instances where there was no pre-approval or approval submitted.
- Sixteen receipts for tuition or books were not submitted.

Recommendation: Departments should adhere to the policy and require the proper documentation for reimbursements. Human Resources should supervise the administration of the policy and verify all documentation is being received to ensure reimbursement uniformity citywide.

Value Added: Compliance; Risk Reduction

Human Resources Response: Agree. Updated policy is being drafted and will have a citywide implementation date of July 1, 2020. HR will oversee Educational Reimbursements for all Departments to ensure all appropriate documentation is received in a timely manner.

3. Employees were not properly reimbursed some of the time.

Employees may not claim reimbursement for costs covered by other sources. This includes grants, scholarships and any other program where the employee receives money for education that is not required to be repaid. The policy lists expenses that are considered eligible and non-eligible for reimbursement as shown below:

- Expenses eligible for reimbursements are lab fees and other required fees, required texts (may be books, CD-ROM or other).
- Expenses not eligible for reimbursements are tools and supplies (other than texts) retained by the student; meals, lodging, parking and transportation; pre-enrollment testing, graduation fees, transcripts; computers and internet access fees.

During the review, auditors noted eligible expenses that were not reimbursed as well as ineligible expenses reimbursed, causing both overpayments and underpayments to employees. The following instances were noted:

- Books and Shipping and Handling for books were not reimbursed.
- Incorrect semesters were reimbursed.
- Access safety and security, ID and UNCC system fees were not reimbursed as well as graduation, activity, and transcript or matriculation fees reimbursed which is against policy.
- Classes that were not reimbursed or were underpaid.
- Employee receiving reimbursement for class that they did not pass.
- Overpayment due to scholarship/grants partially paying for an employee's tuition.

Recommendation: Departments should adhere to the policy for reimbursing eligible and non-eligible expenses. Human Resources should supervise the administration of the policy and verify all documentation is being received to ensure reimbursement uniformity citywide.

Value Added: Compliance; Risk Reduction; Efficiency

Human Resources Response: Agree. Updated policy is being drafted and will have a citywide implementation date of July 1, 2020. HR will oversee Educational Reimbursements for all Departments to ensure proper reimbursements citywide.

4. Departments did not consider the relevancy of individual classes to employees' current positions to determine taxability.

The Employee Educational Assistance Policy (HR18), as well as the 2018 IRS Fringe Benefit Guide determines the taxability for educational reimbursements as stated below:

Reimbursements are not taxable if the course is job related according to Internal Revenue Code (IRC) Section 132 and has no dollar limit on the amount of reimbursement eligible for tax exemption. To be considered non-taxable, a course must MEET EITHER the requirements of A or B and must AVOID both the requirements of C and D below.

To qualify as a working fringe benefit:

- a. The education maintains or improves job-related skills needed in the employee's present job. Each class must be reviewed individually.*
- b. The education is required by the employer, law, or professional standards for the employee to keep his or her present salary, status or job AND the education must serve a genuine business purpose for the employer.*

The education does not qualify as a working condition fringe benefit if:

- c. The education is required to meet the minimum educational requirements for qualification in the employee's present employment*
- d. The education is part of a program of study that will qualify the employee for a new trade or business.*

IRC Section 127 allows all education provided by the employer to be eligible for tax exemption up to \$5,250, except education related to sports, games or hobbies unless it has a reasonable relationship to the business of the employer. The following issues were noted:

- Of the 24 employees tested, five were taxed before accumulating \$5,250 in reimbursements.
- For all the reimbursements reviewed, City Departments did not distinguish between relevant and non-relevant classes to determine eligibility for tax exemption. All employees who received greater than \$5,250 were taxed without further review. Auditors reviewed individual classes and questioned whether some may be justified as benefiting an employee's current job and not qualifying them for a new trade or business. This would allow a tax-exempt status for employees. However, some classes reviewed would qualify the employee for a new trade and should be listed as taxable when the total for the year exceeds \$5,250.

Recommendation: The Human Resources attorney should determine whether the City is complying with IRS code.

Value Added: Compliance

Human Resources Response: Agree. HR attorney will review IRC Section 127 and ensure guidance for complying with the code is included in the updated policy. HR has established a maximum reimbursement amount of \$5000 per employee, per year. The new reimbursement

amount (which is below the IRC Section 127 tax exemption threshold) will not require the employee's selected college or universities of the North Carolina System or University of North Carolina at Charlotte, meet the required fees/tuitions benchmarks.

Conclusion

The policy should be updated, and administered citywide by Human Resources.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, and all City departments. Following issuance, audit reports are sent to City Council via the Council Memo and subsequently posted to the [Internal Audit website](#).