



CHARLOTTESM

INTERNAL AUDIT

**Audit Report
Employee Expense Reimbursements
Fiscal Year 2013
February 20, 2015**

**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 employee expense reimbursement policies were adequate and if employees' reimbursements were in compliance with City policies. For FY13, we reviewed 100% of expense reimbursement transactions for 27 executives and the 10 non-executive employees who were reimbursed the most. We also reviewed corporate card transactions from two selected months and a sample of FY14 reimbursements, as we expanded testing to review employees with the most reimbursement activity.

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

Expense reimbursement policies need to be updated, consistently enforced and regularly audited. Policies for reimbursable employee expenses vary widely among both public and private organizations. 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 judgment when interpreting City policies related to reimbursable expenses.

Summary Recommendations and Actions

During fiscal year 2013, employee expense reimbursements (travel, training and other) totaled about \$1.4 million, making up less than two-tenths of one percent (< 0.2%) of the City's total operating expenditures for the year (\$781.2 million). Although this is only a small portion of the City's expenditures, the cost of travel and meals for employees while conducting City business rightfully require careful scrutiny. Therefore, our review has resulted in the following recommendations, along with management's corrective actions, which are detailed further below:

1. The Employee Travel Policy should be updated. A meal per diem should be adopted and guidelines related to non-travel meals should be established.
 - The City's Travel Policy has been appropriately updated to address our concerns. The Policy became effective January 1, 2015.

2. The designated Division responsible for employee travel policies should be shifted from Budget & Evaluation to Finance.
 - Management has shifted responsibility for the Citywide policy, and Finance is taking steps to improve the effectiveness of its reviews.
3. Departments should more closely review and enforce compliance with travel policies before submitting employee reimbursement requests to Finance.
 - For the 37 employees selected, \$123,581 in reimbursed employee expenses for fiscal year 2013 was examined. Errors were identified which resulted in three (now former and current) employees reimbursing the City an aggregate \$3,432.89.
 - The new policy clarifies the responsibilities of individual departments. Specific findings from the audit have been reviewed with the appropriate department heads and each has committed to providing stronger internal reviews.

Background

The previous City of Charlotte Employee Travel policy was dated November 17, 1989. Its stated objective was “to establish uniform regulations governing authorization for employee travel. These regulations are intended to be consistent with efficient operation while permitting sufficient flexibility on the part of the (Department Head) and his or her employees in the conduct of City business.”

In FY13, the majority of employee expense reimbursements (totaling \$1,398,143 Citywide) were posted to the following accounts:

- Mileage reimbursement
- Travel and meetings
- Training, conferences, meetings
- Dues, subscriptions, professional licenses
- Safety gear, and training and travel to safety-related classes

Audit Findings and Recommendations

1. The Employee Travel Policy should be updated. A meal per diem should be adopted and guidelines related to non-travel meals should be established.

- A. The Employee Travel Policy was last updated 25 years ago. Since that time, travel booking methods have changed, as have the options available to travelers. Frequently, travel is now booked via the internet. Travelers have the option of utilizing a variety of upgrades for which a fee is charged, including: priority airline boarding, upgraded airline seating, and internet usage in-flight or in a hotel room. Although the current policy states “Employees are expected to use economical means of transportation giving due consideration to time and distance involved,” it does not specifically address the new options available to travelers and under what conditions any are reimbursable to employees traveling on City business.

For the 37 employees selected, auditors reviewed \$123,581 in reimbursed employee expenses for fiscal year 2013. We noted the following types of expenses which were not addressed in the City's policy: in-flight and in-room internet fees; upgraded airline seats and boarding access; and airline change fees. The related expenses noted during the audit totaled \$1,521. These expenses did not violate the previous City policy, but are being addressed in the updated policy.

- B.** The Policy stated that “reasonable meal expenses will be paid for by the City of Charlotte at actual costs.” However, the methods for meal reimbursements vary by department. One department has established an internal per diem rate. Another department also has an internal per diem, but it is not consistently used. Some departments submit some or all receipts with expense reports while other departments provide none. The City could obtain administrative efficiencies by adopting a meal and incidental expense policy applicable to all employees.
- C.** Auditors noted reimbursements to employees for meals not related to travel. Often, these meals were classified as working lunches. Some were in connection with team building events or staff meetings. No policies addressed the occasions, dollar limits or frequency which City employees should be reimbursed for meals during the work day.

Recommendation: The Employee Travel Policy should be revised to reflect current travel standards and non-travel meal reimbursement expectations, such as:

- Initiate a per diem for meal and incidental expenses. This will increase administrative efficiency and allow for consistent application of the meal reimbursement policy. The policy should establish first and last day of travel protocols, and the need to deduct a portion of the per diem when meals are included in the cost of a conference.
- Establish guidelines for the reimbursement of certain expenses including, but not limited to:
 - priority airline boarding
 - upgraded airline seats
 - hotel room upgrades
 - internet usage in-flight, or in hotel rooms
 - airline change fees
 - in-room movie rentals
 - hotel health club access fees
 - laundry fees
 - flight insurance
 - US Customs Trusted Traveler Program fees
- Establish separate (non-travel) guidelines for working lunches/meals, with guidance to use the GSA per diem rate as a point of reference to determine reasonableness. Actual expenses should be reimbursed if supported by a detailed receipt, noting the business purpose and listing each attendee.

Actions Taken: A revised policy, effective January 1, 2015, addresses the audit issues raised. Employee training for the policy is being conducted in January.

2. **The designated Division responsible for employee travel policies should be shifted from Budget & Evaluation to Finance.**

The Employee Travel Policy in effect during the audited period (dated 1989) states that the Budget and Evaluation Department is responsible for the policy. However, as the department responsible for the daily processing of travel expenses, Finance is best positioned to ensure that the policies are followed as written. Finance can also recommend revisions to the policy when necessary. While Finance has some tools to effect compliance with the existing policies, the policy needs to more specifically detail Finance's authority to compel departments to follow established policies. Following are issues that Finance needs to address with departments:

- A. Travel Authorization and Advances – Auditors reviewed 44 travel advances obtained by the 37 individuals tested for reimbursements during FY13. A few advances were paid to employees without documentation to support the proposed travel expenses. Also, advance and expense forms submitted by City Executives were often approved by subordinate employees. The documentation was provided prior to reimbursements being made and no policies were violated.

Recommendation (A): Requests for travel advances should include evidence that the advance amount requested is reasonable. For example, requests for funds to cover hotel expenses should be accompanied by documentation of the nightly rate. In addition, expense reimbursements for City Executives which were only approved administratively by subordinates in the past should be approved by the City Manager's Office, or the City Manager's designee.

- B. The 1989 policy stated that "No travel expenses will be approved unless the expense form is filled in completely and proper receipts are submitted." However, the policy also detailed "lodging, transportation and registration fees" as the expenses for which receipts must be submitted, with no mention of meals. This has led to varied interpretations, with some travelers submitting receipts for even the smallest of expenditures (e.g., a dollar), while others submitted receipts for only those expenses above \$25. Occasionally, larger amounts were reimbursed without a receipt. However, auditors concluded that the claimed expenses were reasonable, even when a receipt was not included for a meal, airline baggage fee, or miscellaneous business expense.

Auditors reviewed 184 travel expense reimbursement requests and noted several areas for which the new policy (effective January 1, 2015) adds clarity. These include the specific circumstances surrounding meals when receipts and related details (addressing business purpose and attendees) are required, the denial of reimbursement requests which are missing documentation of airline travel or registration fees, and the denial of requests using improper forms. Only two exceptions totaling \$22.47 were noted which clearly

violated the travel policy. When brought to the employee's attention, reimbursement was made.

Recommendation (B): Finance should reject requests for travel-related expense reimbursements not submitted on the correct form, and when lacking proper receipts or explanations. Reimbursement requests for expenses other than meals should include appropriate receipts and adequate documentation related to the business purpose.

- C. There were ten instances of inadequate detail on expense reimbursement requests. These requests lacked documentation of the business purpose for the travel altogether, or the documentation was insufficient to establish the validity of the expense. For example, the business purpose was listed on some requests as "meeting," "conference," or "luncheon" without any further details. Some restaurant receipts did not detail a business purpose for the meal or the individuals in attendance. Also, some mileage reimbursement requests included no reason or specific destination for the trip.

Recommendation (C): Departments should be required to adequately document the business purpose of expenses incurred. Finance should reject noncompliant requests.

Additional Recommendations: The Finance Department should be specifically designated the authority to enforce the employee travel policies. If departments submit travel advance or reimbursement requests that are not in compliance with the policy, Finance should reject them.

Actions Taken: Management has shifted responsibility for the citywide policy to Finance. Finance has developed specific guidance for accounting clerks to ensure the effectiveness of its process, including the review of the requirements to authorize travel advances, the inclusion of detailed receipts when required, obtaining full explanations of certain expenses and the completion of proper forms.

Finance Response: Agrees.

3. **Departments should more closely review and enforce compliance with travel policies before submitting employee reimbursement requests to Finance.**

The violations in Finding #2 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. Many of the violations will be precluded in the future by the adoption of per diems, allowing departments to focus upon and enforce policies with the most significant impact.

The following issues are more serious than those noted above and have been referred to employees' supervisors and Human Resources, as appropriate:

A. Audit staff addressed a number of issues with one employee, including:

- The employee received an automobile stipend, but filed nine travel expense reimbursements in which he also received about \$200 for in-county mileage. Stipends preclude such reimbursements. The over-reimbursement was returned.
- The airline change fee and cost of trip insurance were paid via P-card but not deducted from the expense report, resulting in a \$174 overpayment to the employee. The over-reimbursement was returned.
- The personal use of a rental car was misallocated, resulting in an estimated overcharge to the City of \$127.28. The employee agreed with this calculation and repaid that amount.

Action Taken: The employee reimbursed the City a total of \$538.29, for the items above and other minor errors.

B. Audit staff noted two instances in which an employee was reimbursed for mileage of about \$464 and gas expenses of about \$144 for the same trips. The flat rate mileage reimbursement was accurate; however, the additional gas expense was not allowable.

Action Taken: The employee reimbursed the City \$144.

C. An over-reimbursement was discovered and resolved by a department during the audit, and is noted below. (The department had undertaken a self-review and notified Internal Audit of its finding.) Due to the amount and type of error, auditors expanded the scope related to this employee and reviewed all reimbursements during fiscal years 2011 through 2014. The initial error and additional findings follow:

Initial Error, corrected by Department

- The employee received excess reimbursements for airfare, hotel and baggage fees totaling nearly \$1,600. The employee used his P-card to pay for travel expenses and also submitted a travel reimbursement request for those same expenses. On the travel expense report, the employee indicated that none of the expenses were charged to a P-card. Proper supervisory review of P-card activities also would have identified the duplicate submittal.

Action Taken: In April 2014, the employee reimbursed the City \$1,599.96.

Additional Findings, based upon expanded scope

- On four separate trips between 2011 and 2013, the employee was reimbursed for incorrectly applied per diem amounts, totaling \$457.50.
- Two separate expenditures at local retailers were paid with the employee's P-card, but were also submitted for reimbursement, totaling \$26.58.
- In 2012, the employee was advanced funds (\$666.56) for a trip which was later cancelled.

Action Taken: The employee reimbursed the City \$1,150.64 in November 2014.

Recommendation (C): The employee's supervisor should determine what training and/or office procedural changes are required to ensure that travel policies are understood and adhered to. In addition, Human Resources should be consulted to consider what other actions are appropriate.

Action Taken: All appropriate reimbursements have been made. The Department and Human Resources have been apprised of Audit's conclusions regarding the errors. The Department has changed its approach for approving employee reimbursements and will ensure a more detailed review of reimbursements is conducted by administrative staff prior to submittal to Finance.

Additional Recommendation: Finance should hold departments accountable for following existing policies. While employees are responsible to deduct P-card expenditures from reimbursement requests, Finance needs to address potential overpayments through training and reminders to travelers. Over the next few months, Finance should consider whether new processes can prevent duplicate claims, or advise if P-card usage for travel should be suspended.

Finance Response: Agrees. The revised policy in effect January 1, 2015, clarifies the responsibility of individual departments and employees.

Follow-up: Internal Audit will conduct a review in 2015 to assess the effectiveness of the new policy, including Finance's enforcement efforts. A recurring review, with a focus on advances and travel-related P-card expenditures, will also be included in the annual Audit Plan.