

Expense Report Follow-Up Audit November 2008

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City Auditor's Office

November 26, 2008

Honorable Mayor and Members of the City Council:

I am pleased to present the City Auditor's Office's follow-up audit on expense reports within the City of Arlington. The purpose of the audit was to determine if recommendations made in the June 2007 Expense Report Audit were implemented in accordance with management's responses.

Our follow-up audit results indicate that management has fully implemented 11 of the 12 prior audit recommendations and partially implemented the remaining recommendation.

We would like to thank all City departments for their full cooperation and assistance during this project.

A handwritten signature in cursive script that reads "Patrice Randle".

Patrice Randle, CPA
City Auditor

- c: Jim Holgersson, City Manager
Fiona Allen, Deputy City Manager
Bob Byrd, Deputy City Manager
Gilbert Perales, Deputy City Manager
Trey Yelverton, Deputy City Manager
April Nixon, Financial and Management Resources Director

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EXPENSE REPORT FOLLOW-UP AUDIT



Office of the City Auditor
Patrice Randle, CPA
City Auditor

Project #08-12

November 26, 2008

Executive Summary

*Eleven of twelve
recommendations were
fully implemented*

*Review of sample
expense reports found
numerous exceptions to
revised policy*

Fully Implemented

- *Policy has been updated*
- *Specific guidelines were established concerning lodging, mileage, and extraordinary expenses*

Partially Implemented

- *Reimbursements lack proper justification*

As part of the 2008 Annual Audit Plan, the City Auditor's Office has completed a follow-up to the June 2007 Expense Report Audit. The follow-up audit was conducted in accordance with generally accepted government auditing standards. The objective of this follow-up was to determine the status of prior audit recommendations.

Management concurred with all 12 of the prior audit recommendations. The City Auditor's Office noted that eleven recommendations had been fully implemented, in accordance with management's response, and that one had been partially implemented.

The City implemented a revised Training and Travel Policy in June 2007. The updated policy addresses issues identified in the initial audit. While the policy has been changed, the City Auditor's Office noted numerous exceptions in a review of employee expense reports - demonstrating a minimal understanding and/or enforcement of the current policy. This lack of oversight has led to employees being over reimbursed for expenditures such as per diem, parking, and airfare. During this review, only four of 44 expense reports were found to be without exception.

The majority of exceptions found concerned administrative processes such as missing/improper approvals or insufficient documentation of conference dates, per diem, lodging, etc. The remaining exceptions resulted in questioned costs. Questioned costs resulted from per diem reimbursements, parking expenses, and registration for spouses. These questioned expenses are illustrated in Exhibit I of this report. While the total dollar amount of the exceptions (\$1,290) is minimal when compared to the total dollar value of expense reports or the City's budget, the exceptions indicate a noncompliance with the revised policy.

Audit Scope and Methodology

The City Auditor's Office reviewed a sample of 44 expense reports from, October 2007 through July 2008, totaling \$116,266. The following methodology was used in completing the audit.

- Reviewed City's Training and Travel Policy, revised June 2007
- Reviewed documentation from Financial Services' evaluation of exceptions noted in the June 2007 Expense Report Audit
- Reviewed a sample of employee expense reports to determine the extent of compliance with City policy
- Obtained information from employees concerning their individual expense reports to gain a better understanding of expense details

Status of Prior Audit Recommendations

Recommendation:

The Financial Services Director, in conjunction with the City Manager's Office (CMO), should research the above exceptions [per diem and additional travel days] and seek reimbursement from employees for any unallowable expenses.

Management's Response:

The exceptions have been researched. The employees and in some cases, their supervisor, were contacted and asked to either reimburse the expense or provide additional documentation to justify the business necessity of the expense.

Target Date: Complete
Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. According to the Financial and Management Resources Department, the unallowable expenditures were researched and after speaking with employees, and in some cases their supervisors, it was determined that all were appropriate business expenses and no reimbursement to the City was necessary.

Recommendation:

The Financial Services Director should ensure that the City actively participates in the State hotel contract.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(E)(2)

Target Date: June 11, 2007
Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. The Training and Travel Policy, revised June 2007, includes a section specifically addressing the use of the State hotel contract. It states that the State hotel contract should be used when possible and gives a link to the State of Texas Building and Procurement Commission website where information on participating hotels can be located.

The City Auditor's Office reviewed a sample of 44 expense reports from October 2007 through July 2008. Seven of the 44 expense reports were for trips within the state of Texas. The State hotel contract rate was not requested in two instances. In one case, the employee stayed at a participating hotel. However, since the State hotel contract rate was not requested, the City paid \$139.99 per night instead of the \$93.50 nightly contract rate. As a result, the City could have saved approximately \$232.00. Additionally, one employee stayed at a non-participating hotel when there

were three participating hotels within a half mile radius of the hotel used. This employee paid \$64.00 per night more than what would have been charged had the State hotel contract been used. Given there were room vacancies at participating hotels, the City could have saved \$192.00.

Recommendation:

The Workforce Services Director and the Financial Services Director, in conjunction with the City Manager's Office, should establish specific guidelines for the determination of reasonable lodging costs. Once those guidelines have been established, the Workforce Services Director should publicize and circulate those guidelines to all City staff.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(E)(2). The Workforce Services Director will incorporate the policy into the Personnel Policy Manual which will be circulated to all City staff.

Target Date: June 11, 2007
Responsibility: Anna Mosqueda, Director of Financial Services
Lisa Coburn, Interim Workforce Services Director

Implementation Status:

Implemented. The updated Training and Travel Policy outlines that the City will only pay actual, single occupancy or conference rates, and also mentions the use of the State hotel contract. The revised policy was circulated to City staff and posted on the Financial Services and Workforce Services portals.

Recommendation:

The Financial Services Director should establish a written policy that requires City staff to explain any lodging costs that were incurred in excess of the lodging guidelines mentioned in the previous recommendation. Reimbursements for expense reports in which the employee has not provided a written and logical explanation, should not be processed.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(E)(2)

Target Date: June 11, 2007
Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Partially Implemented. During a review of the revised Travel and Training Policy, the City Auditor's Office noted that changes were made to include language stating that lodging expenses in excess of the conference rate should be explained as an extraordinary expense. However, five

expense reports of the 44 reviewed had hotel invoices with charges above the conference rate with no additional explanation or extraordinary expense listing. This demonstrates that, while the policy has been changed, reimbursements outside policy are still being made.

Recommendation:

The Financial Services Director and the Workforce Services Director should reiterate the City's mileage reimbursement guidelines to staff.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(E)(6)(b). The Workforce Services Director will incorporate the policy into the Personnel Policy Manual which will be circulated to all City staff.

Target Date: June 11, 2007
Responsibility: Anna Mosqueda, Director of Financial Services
Lisa Coburn, Interim Workforce Services Director

Implementation Status:

Implemented. The City's policy was revised to exclude any reference to "in Metoplex" or "out of Metroplex" when calculating mileage reimbursement. All mileage should now be reimbursed at the IRS rate. Local travel is to be measured from the employee's home or office, which ever is less.

Recommendation:

The Workforce Services Director, in conjunction with the Financial Services Director and the CMO, should modify the existing Training and Travel Policy to:

- Disallow phone expenses for employees that receive cell phone allowances except when necessary due to the unavailability of cell phone service
- Shift responsibility from Accounts Payable to user departments for the review of expense reports for reasonableness
- Require that the mode of travel (driving versus air travel) be reimbursed with consideration given to minimizing the cost to the City
- Require that employees obtain travel invoices from other agencies that include detailed accounting for actual travel expenses
- Deduct normal commuting mileage from the calculation of local mileage reimbursement
- Require relocation expenses to be reimbursed in accordance with IRS guidelines
- Allow for hotel reimbursement at the single occupancy rate only
- Specifically address allowable methods of payment for airline travel
- Prohibit the use of travel packages that do not clearly segregate the cost of lodging and airfare or provide evidence that the package deal was less costly than separate purchases of lodging and travel

Management's Response:

This is addressed in the revised Training and Travel Policy – Sections 108.01, 108.03, and 108.04.

Target Date: June 11, 2007

Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. The new Training and Travel policy specifically addresses the above items.

Recommendation:

The Financial Services Director, in conjunction with the CMO, should require employees and reviewers to clearly justify and document why additional travel days are necessary.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(E)

Target Date: June 11, 2007

Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. The City Auditor's Office noted that policy now specifically calls for stays extended beyond conference dates to be properly documented and approved as extraordinary expenses on the expense report. However, in a review of 44 expense reports, there was no documentation to support extended stays for two expense reports. An adequate explanation of charges was not provided for fifteen additional expense reports.

Recommendation:

The Financial Services Director, in conjunction with the CMO should determine whether additional policy guidance is needed to document those circumstances under which pre-conference social events are allowable.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(E)(1)(e)

Target Date: June 11, 2007

Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. The City's Training and Travel Policy was updated to include the following: "The City will not pay for social or recreational conference functions that are separate ticketed events not included in the base conference registration fee without prior approval of the Director."

Recommendation:

The City Manager, in conjunction with the Financial Services Director, should require department directors to approve training and travel requests in accordance with the Training and Travel Policy.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(B)(1)

Target Date: June 11, 2007

Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. The Department Directors or their designees are responsible for prior and final expense report review and approval, according to the new policy. However, the City Auditor's Office noted that 21 of the 44 sampled expense reports did not have documented prior approval and one did not have proper supervisory approval.

Recommendation:

The City Manager, in conjunction with the Financial Services Director, should require that DCMs only review and approve Department Head expense reports and approve travel for all employees prior to the trip on an exception basis only (e.g., when the City Manager has frozen travel).

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.03(B)(2)

Target Date: June 11, 2007

Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. The Training and Travel Policy, revised June 2007, requires Deputy City Manager approval of Director's travel and City Manager approval of Deputy City Manager travel. No exceptions were found during an expense report review.

Recommendation:

The Financial Services Director should require that expense reports be approved by the immediate supervisor, unless the Department Head has designated a specific individual or group to perform such review (such as the Police Fiscal Services Division). In instances where the immediate supervisor is unavailable, the next level of management should approve the expense report.

Management's Response:

This is addressed in the revised Training and Travel Policy – Section 108.01(B)

Target Date: June 11, 2007

Responsibility: Anna Mosqueda, Director of Financial Services

Implementation Status:

Implemented. Policy now states that a Department Director or their designee is responsible for reviewing and approving expense reports and any related supporting documentation.

Recommendation:

The Workforce Services Director should update the Training and Travel policy to include the above requirement. [Expense reports should be approved by the immediate supervisor, unless the Department Head has others designated to perform such review.]

Management's Response:

The Director of Financial Services has updated the Training and Travel policy and upon approval, the Workforce Services Director will incorporate the policy into the Personnel Policy Manual.

Target Date: June 11, 2007

Responsibility: Anna Mosqueda, Director of Financial Services

Lisa Coburn, Interim Director of Workforce Services

Implementation Status:

Implemented. The City's policy has been updated.

EXHIBIT I

Exceptions by Department

Department	Expense Reports in Sample	Improper Approval	No Documented Prior Approval	Not Timely	Insufficient Information	Questioned Costs	Category
AHA Board	2				2	\$774.00^	Per diem, spouse registration
City Attorney's Office	1		1		2		
City Manager's Office	1				1		
Community Development & Planning	1		1	1	2		
Community Services	3	1	2		3	\$370.80*	Per diem, spouse airfare
Convention Center	1		1		1	\$61.00	Per diem
Financial Services	2						
Fire	13		8		1		
Information Technology	3		2	3	1		
Library	2		2		2		
Management Resources	3		1		2		
Mayor and Council **	2		N/A	1	2		
Police	8		2	2	4		
Water	1			1	1	\$66.00	Parking
Workforce Services	1		1	1	1	\$18.00	Per diem
TOTAL	44	1	21	9	25	\$1,289.80	

^ Per diem and guest registration was paid for spouses of Board Commissioners to attend an event at which the Housing Authority of the City of Arlington was nationally recognized for an Award of Excellence in Administration Innovation. Management indicates that payments were made from earned administrative fees, not general or grant funds and are an eligible expense for this funding type. A Board travel policy was established following this review.

* This amount was refunded to the City during the course of this follow-up.

** The City's Travel and Training Policy does not require documented prior approval of City Council travel. However, the adoption of a Council travel policy should be considered.