

**Uniform Expenditures Audit**  
**August 2007**

Patrice Randle, City Auditor  
Craig Terrell, Assistant City Auditor

City Auditor's Office

August 10, 2007

Honorable Mayor and City Council,

I am pleased to present the City Auditor's Office's report on uniform expenditures at the City of Arlington. The purpose of the audit was to evaluate the controls over uniform expenditures throughout the City.

Management concurs with our audit findings and related recommendations. Management's responses to our audit findings and recommendations, as well as target implementation dates and responsibilities, are included in the following report. Within twelve months, the City Auditor's Office will conduct a follow-up audit and comment on management's implementation of these audit recommendations.

We would like to thank City staff for their cooperation and assistance during this project and we look forward to continuing our efforts to further enhance controls over uniform expenditures.

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
- Gilbert Perales, Deputy City Manager
- Trey Yelverton, Deputy City Manager

# Uniform Expenditures

## Table of Contents

|                                   | <u>Page</u> |
|-----------------------------------|-------------|
| Executive Summary .....           | 1           |
| Audit Scope and Methodology ..... | 2           |
| Background .....                  | 2           |
| Detailed Audit Findings .....     | 4           |

# **UNIFORM EXPENDITURES**



Office of the City Auditor

Patrice Randle, CPA  
City Auditor

**Project #07-08**

**August 10, 2007**

## ***Executive Summary***

*Generally, uniform expenditures appeared necessary, reasonable, and were supported by adequate documentation*

*The City was not always reimbursed for employee boot purchases*

## ***Opportunities for Improvement***

*Establish citywide uniform guidance*

*Comply with department uniform policies*

*Comply with IRS guidelines*

*Establish controls to ensure that uniform deductions are recorded*

*Require the use of citywide uniform contract*

During the 2007 Cash Handling Audit, the City Auditor's Office noted several inconsistencies with the handling of uniform expenditures through petty cash. As a result, the City Auditor's Office has completed an audit of uniform expenditures with unassigned hours in the 2007 Annual Audit Plan. The audit was conducted in accordance with generally accepted government auditing standards. The audit objectives were to determine whether:

- Departments have been provided adequate guidance to administer and control uniform expenditures consistently
- Uniform expenditures were necessary, reasonable and supported by adequate documentation
- Departments have established effective methods to ensure that individual employees do not exceed uniform allowances
- The City is accurately recording payroll deductions and allowances in the Lawson financial system

As a result of the audit, the City Auditor's Office noted that:

- There is a need for a citywide guidance regarding uniform expenditures
- Some departments did not comply with their uniform policies
- The City needs to comply with Internal Revenue Service (IRS) guidelines related to clothing items purchased for employees
- The City was not always reimbursed through payroll deductions for employee boot purchases
- City departments did not always utilize the citywide uniform contract

The findings and recommendations are discussed more fully in the Detailed Audit Findings section of this report.

## ***Audit Scope and Methodology***

Internal Audit reviewed uniform expenditures for calendar year 2006. The following methodology was used in completing the audit:

- Interviewed Financial Services employees responsible for processing uniform expenditures
- Interviewed Workforce Services personnel regarding citywide uniform policy
- Interviewed department representatives responsible for monitoring uniform expenditures
- Reviewed and assessed internal controls over uniform expenditures

## ***Background***

The City strives to have employees project a professional image at all times while on duty. Most City departments have established uniform policies or practices to promote professionalism while allowing clothing that is suitable for the work environment.

The following table documents FY 2006 uniform expenditures by department:

| <b>Uniform Expenditures<br/>FY 2006</b> |                   |
|---|-------------------|
| <b>Department</b>                       | <b>Amount</b>     |
| Police                                  | \$ 293,250        |
| Fire                                    | 147,261           |
| Parks                                   | 59,430            |
| Water Operations                        | 25,506            |
| Neighborhood Services                   | 18,439            |
| Public Works                            | 16,370            |
| Street Maintenance                      | 9,520             |
| Water Meter Services                    | 8,473             |
| Support Services                        | 8,355             |
| Convention Center                       | 5,591             |
| Water Treatment                         | 4,598             |
| Facility Services                       | 3,143             |
| Housing Authority                       | 2,069             |
| Other                                   | 871               |
| <b>Total</b>                            | <b>\$ 602,876</b> |

Source: Lawson Financial System

Note: The City Auditor's Office identified that some of the above expenditures were incorrectly coded as uniform expenditures.

The Police and Fire departments both have annual contracts with various vendors to supply uniforms and other supplies such as soft body armor. The City's Purchasing Division has routinely negotiated an annual contract with a uniform vendor to supply other City departments with uniforms. Recently, the City arranged to utilize Tarrant County's annual contract for work uniforms (Bid No. 2006-068). Although this annual contract is available for City departments,

many departments opt to purchase uniform items outside of the annual contract based on functionality or sizing needs.

## *Detailed Audit Findings*

### *1. The City does not have adequate general guidance regarding uniform expenditures.*

There is currently very little citywide guidance related to uniforms and/or clothing allowances. The existing Personnel Policy Manual (Section 109.03) states that departments will provide safety equipment and uniforms, either directly or indirectly through allowances or reimbursements. There is additional language regarding the authorization of payroll deductions.

Discussion with Workforce Services indicated that they do not believe there is a large need for consistency between departments in relation to how much employees are reimbursed for uniform expenditures or what type of expenditures are reimbursable. Workforce Services indicated that this is best left to be determined by department management. However, the City Auditor's Office noted that there are significant differences between departments regarding uniform allowances and what is included in their uniform policies.

- One department (Public Works) provides uniforms but does not have written uniform policies. During the audit, the department formed a committee to develop a uniform policy.
- Some departments (Water Utilities, Community Services, Parks and Recreation) specify individual uniform allotments, while others do not (Public Works, Fire).
- One department (Parks and Recreation) prohibits the use of petty cash for uniform expenditures while others are silent regarding acceptable payment methods for uniform purchases.
- Two departments (Water Utilities and Parks and Recreation) specifically state that the department will reimburse employees for uniform items at the rate specified for the comparable item in the annual contract.
- One department (Parks and Recreation) does not contribute at all to the cost of employee safety boots while others (Water Utilities, Community Services) contribute a small amount. At one time, the Environmental Services Department provided the full cost of safety boots (Environmental Services) but now contributes up to \$100 per year.

Several departments purchased athletic shoes as "work shoes." Clear written guidelines describing work shoes do not exist. The City Auditor's Office also noted that the Code Enforcement Division purchased "backless clogs" for a Code Enforcement Officer which may not be suitable for the safety requirements of that position.

The City Auditor's Office reviewed uniform policies at other public agencies and noted that they generally addressed the following items that are not included in a citywide policy or guidance at the City of Arlington:

- Requiring employees to return uniform clothing upon termination
- Requiring that employees be financially liable for the replacement cost of abused clothing
- Disciplinary procedures for failing to comply with uniform policy

Although the above requirements are not included in a citywide policy, some City departments have included the requirements in their department uniform policies.

***Recommendation:***

The City Manager should provide at least the following uniform and clothing guidance to departments by outlining:

- Requirement that departments establish written policies regarding uniforms using the citywide guidelines. Department policies should address uniform allowances, responsibility for wearing uniforms, responsibility for replacement of uniforms, etc.
- Requirement that employees are responsible for replacing uniforms damaged through abuse
- Requirement that departments utilize any annual uniform contract to the extent possible
- That departments obtain Deputy City Manager approval prior to establishing any uniform standard or policy that differs from the citywide guidelines
- Requirement that employees who choose to make uniform purchases from non-contract vendors receive reimbursement at the rate specified for the comparable item in the annual contract
- A standard reimbursement rate and definition for safety shoes
- Unallowable uniform items (e.g. belts, socks, etc.)

***Management's Response:***

*The City Manager prefers to maintain a decentralized uniform policy that enables department specific flexibility and requires department accountability. Workforce Services will develop specific common City uniform guidelines that must be included in department specific policies.*

*Target Date: August 31, 2007*

*Responsibility: Joyce Williams, Workforce Services Director*

*Departments will update their uniform guidelines to include common City uniform guidelines and communicate the guidelines to the workforce.*

*Target Date: September 30, 2007*

*Responsibility: Applicable Department Directors*

## ***2. Departments did not always comply with their written uniform guidelines.***

The Parks and Recreation Department's Park Operations Uniform Policy states:

*"Purchases will not be made through petty cash funds."*

Prohibiting the use of petty cash eliminates the risks associated with the use of petty cash. It is more likely that expenditures made from petty cash will not be recorded on employee uniform allotment tracking sheets or recorded as taxable wages when applicable. For example, the City Auditor's Office noted two instances where Parks and Recreation employees were reimbursed from petty cash for the purchase of three pairs of jeans. However, these purchases were not recorded by the individual who monitors uniform purchases to ensure that employees do not exceed their annual allotments. The employees are subject to a \$100 per year uniform allotment for pants. According to Parks and Recreation Department records, these employees did not exceed their annual \$100 pant allotments.

The Water Utilities Department's Employee Uniform Policies indicate that Meter Services Division employees can receive \$25 towards safety boots (or tennis shoes for Meter Readers if they prefer) on an annual basis. However, the Water Utilities Department reimbursed ten (10) employees for safety boots in excess of the \$25 per year stated in their written policy. Subsequently, the Water Meter Services Manager explained that the department approved additional allocations at the end of the fiscal year. However, the City Auditor's Office did not receive any documentation that specifically indicated that this approval had been granted.

The City Auditor's Office also noted that the City contributed \$25 for a pair of boots for one Water Utilities Resource Services employee although the department policy does not specify boot contributions for Resource Services personnel.

### ***Recommendation:***

The Water Utilities and Parks and Recreation Directors should ensure that their departmental uniform policies are updated or that employees comply with the current policy.

### ***Management's Response:***

*Water Utilities has written guidelines that may be deviated from on occasion with administration approval. These guidelines will be revised to clarify this, and to prohibit the use of petty cash for uniform purchases. In addition, these guidelines will be revised to require managers to report their uniform purchasing activities relative to the guidelines on a biannual basis.*

*Target Date:           September 1, 2007 (Revise guidelines)  
                                  October 31, 2007 (Develop and present first report)*

*Responsibility: John Norman, Meter Services Manager (Revise guidelines)  
Water Utilities Uniformed Personnel Managers  
(Develop and present first report)*

*The Parks and Recreation Department will reiterate its policy of prohibiting the use of petty cash for uniform expenditures in conjunction with its communication of updated City uniform guidelines.*

*Target Date: September 30, 2007  
Responsibility: Matt Young, Assistant Director Parks Operations*

**3. *The City may not be complying with IRS guidelines related to the reporting of income for work clothing provided by employers.***

The “Public Employer Tax Guide” dated February 2007, issued by the Internal Revenue Service, states:

*“Work clothing provided by the employer is not taxable to the employee if 1) the employee must wear them as a condition of employment, and 2) the clothes are not suitable for everyday wear.”*

The guide further states that it is not enough that the employee does not, in fact, wear the work clothes away from work. The clothing must not be suitable for taking the place of regular clothing. Many City departments routinely purchase (or reimburse employees) blue jeans or other pants that are suitable for everyday wear. The City does not track the value of these purchases for inclusion on employees’ Form W-2 statements of wages earned. Failure to report all applicable payments on Form W-2 subjects the City to possible fines and penalties upon audit by the IRS.

Rather than purchasing or reimbursing employees for clothing items, it might be feasible to provide employees with annual clothing allowances for the purchase of jeans, pants and other items that do not meet the “suitable wear” exception listed above. This would facilitate the recording of the fringe benefit provided to employees but increase problems related to employee terminations, use of annual contracts, and control over items purchased.

***Recommendation:***

The Financial Services Director should communicate taxable fringe benefit guidelines related to uniforms to departments for identification of uniform items suitable for everyday wear.

***Management’s Response:***

*The Financial Services Department will develop a document outlining IRS guidelines pertaining to uniforms provided by the City. This document will be distributed to department heads in order to help them identify which uniform items are nontaxable and which items must be included in employees’ taxable income. Information will be*

*provided to the Director of Workforce Services for incorporation into the City-wide Uniform Policy.*

*Target Date: August 31, 2007*  
*Responsibility: Sherry Wright, Controller*

***Recommendation:***

For those items determined to be suitable for everyday wear, the City Manager should ensure that department directors establish mechanisms to identify, record and report such purchases to the Financial Services Department, if the City does not utilize uniform allowances.

***Management's Response:***

*The City Manager will include a requirement for departments to establish mechanisms to identify, record and report uniform purchases to the Financial Services Department in the common City uniform guidelines.*

*Target Date: August 31, 2007*  
*Responsibility: Joyce Williams, Workforce Services Director*

***4. Methods to ensure that the City is reimbursed for boot purchases do not exist.***

The City has arranged with two local vendors to allow employees to purchase work safety boots. Under the agreements, employees purchase boots on the City's account and upon invoice, the City pays the vendors for the total cost of footwear. The employees then reimburse the City for their obligation through payroll deductions. The City Auditor's Office reviewed this process to ensure that the City was properly reimbursed. The City Auditor's Office noted that invoices could not always be matched to specific payroll deduction forms, making it difficult to determine if employees paid their share. No formal process appears to be in place to reconcile and verify that payroll deductions occurred.

The following issues were noted:

- Vendor invoices were not reconciled to employee payroll deduction forms. By not requiring reconciliation, the City risks not being reimbursed as required. For payments to Red Wing Shoe Store, the payroll "Voluntary Purchase Agreement" form was included with the invoice or other documentation for only 11 of 32 employee boot purchases. Likewise, the form was attached to only 13 of 35 purchases from Cavenders Boot City. Inclusion of the purchase agreement form would allow verification that payroll deduction authorizations were properly obtained by the department to satisfy the employee's obligation.
- The City was not reimbursed for boots purchased by two Water Utilities employees. The total employee obligation for the boots purchased by the two employees was \$255. The City Auditor's Office could not locate purchase agreement forms for the two employees.

- The City was not reimbursed for boot purchases made by four Water Utilities Field Operations employees. The total employee obligation for the four purchases was \$344 but no funds were deducted from the employees' earnings. The Water Utilities Department provided the City Auditor's Office with copies of the employees' purchase agreement forms but it could not be determined whether the forms were submitted to the Financial Services Department or not. All of the forms were for boot purchases made in January 2006 and may not have been processed due to the conversion to the Lawson financial system.

Other general observations noted:

- The remaining balances for boot deductions were not subtracted from two terminated Water Utilities employees' final paychecks. No methodology exists to ensure that the remaining balances are paid by terminating employees. The total amount not received was \$48.
- During conversion to the new accounting system, deductions from some employees' checks continued after six (6) pay periods, resulting in employee overpayment to the City. Most of these errors were corrected as employees inquired as to why a particular deduction was still being taken from their check. However, as of February 2007, deductions were still being incorrectly taken from one employee's checks. He received a credit of \$220 in March 2007.

***Recommendation:***

The City Manager should require that departments establish methods to ensure that the City is reimbursed by employees as required.

***Management's Response:***

*The City Manager will include a requirement for departments to establish methods to ensure that the City is reimbursed by employees as required in the common City uniform guidelines.*

*Target Date: August 31, 2007*

*Responsibility: Joyce Williams, Workforce Services Director*

*Departments will establish methods to ensure that the City is reimbursed by employees as required, in partnership with Financial Services.*

*Target Date: September 30, 2007*

*Responsibility: Applicable Department Directors*

***Recommendation:***

The Water Utilities Director should research the above exceptions and seek reimbursement from current employees for any outstanding payroll deductions. Necessary documentation should be forwarded to the Financial Services Department for processing.

***Management's Response:***

*Copies of deduction forms for four of the employees were located on file and re-sent to Finance. These transactions may have been lost during the transition to Lawson. Water Utilities has researched the above exceptions and is forwarding payroll deduction documentation to Financial Services for processing.*

*Target Date: Complete*

***Recommendation:***

The Financial Services Director should ensure that, in the future, remaining payroll deduction balances are received from terminating employees.

***Management's Response:***

*The Financial Services Department has already updated their payroll processes to include review of the terminating employee's deductions, looking for any remaining balances. If a balance exists, the total will be taken from the employee's final pay check.*

*Target Date: Complete*

*Responsibility: Jean House, Payroll/Accounts Payable Supervisor*

***Recommendation:***

The Financial Services Director should ensure that all current employee deductions are valid and that the errors that occurred at conversion have been corrected.

***Management's Response:***

*The Financial Services Department will review all uniform deductions to ensure that all current deductions are valid and all conversion errors have been corrected. Errors occurring from conversion have been previously reported by employees and have been resolved; however, an additional review will be done to ensure no others exist.*

*Target Date: August 31, 2007*

*Responsibility: Jean House, Payroll/Accounts Payable Supervisor*

**5. *City departments do not always utilize the citywide uniform contract.***

Annual contracts are used by the City to obtain the best pricing available based on aggregate totals. In FY 2006, the City had an annual contract with Cen-Tex Uniforms to provide work uniforms for City employees. The contract included jackets, shirts, slacks, pants, shorts and coveralls. The staff report recommending exercising the final one-year renewal option stated that the uniforms would be provided on an as-need basis for the Neighborhood Services, Water Utilities, Public Works, Convention Center, Support Services and Parks and Recreation departments. Although these departments did make purchases from the annual contract, there were many instances where additional uniform supplies (similar to the contract items) were purchased from other vendors. In addition, employees from the listed departments used

procurement cards and/or received reimbursement through petty cash or the City's accounts payable process for purchases made at retail outlets such as Target, Walmart, JC Penney and Sears. The most common reason provided for not using the uniform contract was the need for smaller or larger sizes than those available through the annual contract. In addition, some departments desired uniform items that were not available through the annual contract. For example, the Parks and Recreation Department routinely purchases bright yellow-lime polo shirts that were not available through the annual contract.

In April 2007, the City started using the Tarrant County annual uniform contract. According to the Purchasing Division, not all City departments provided their uniform needs when requested. If input had been received, the Purchasing Division could have incorporated the departments' needs when developing specifications for an annual uniform contract. Because input was not received, the City decided to use the cooperative agreement and purchase uniforms from the Tarrant County uniform contract.

***Recommendation:***

The City Manager should require departments to maximize the use of the annual uniform contract and communicate any additional uniform needs to the Purchasing Division for inclusion in future contracts.

***Management's Response:***

*The City Manager will include a requirement for departments to communicate their uniform needs to Purchasing and to utilize the City's annual contracts to the maximum extent possible in the City's common uniform guidelines.*

*Target Date: August 31, 2007*

*Responsibility: Joyce Williams, Workforce Services Director*