

Uniform Expenditures Follow-Up Audit January 2009

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City Auditor's Office

January 16, 2009

Honorable Mayor and Members of the City Council:

I am pleased to present the City Auditor's Office's follow-up report on uniform expenditures within the City of Arlington. The purpose of the audit was to determine the implementation status of prior audit recommendations.

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

We would like to thank City departments for their full cooperation and assistance during the 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
- Joyce Williams, Workforce Services Director

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UNIFORM EXPENDITURES FOLLOW-UP AUDIT



Office of the City Auditor

Patrice Randle, CPA
City Auditor

Project #08-15

January 16, 2009

Executive Summary

*Eight of nine
recommendations were
fully implemented*

Implemented

- *Common City uniform guidelines were established*
- *Specific guidelines concerning taxable fringe benefits were established*

Partially Implemented

- *Use of annual uniform contracts*

As part of the 2008 Annual Audit Plan, the City Auditor's Office has completed a follow-up to the August 2007 Uniform Expenditures 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 implementation status of prior audit recommendations.

Management concurred with all nine of the prior audit recommendations. The City Auditor's Office noted that eight recommendations have been fully implemented and one has been partially implemented.

Common City uniform guidelines were added to the City's Personnel Policy Manual in January 2008. The new policy consists of general uniform rules and requires that departments institute their own, more specific uniform policy. The common policy contains general provisions and provides guidance concerning purchasing activities and responsibility for wearing and replacing uniforms. It also defines and sets reimbursement rates for safety shoes, and details taxable fringe benefits

The Financial and Management Resources Department also conducted a review of the payroll process to ensure that payroll deductions are received for terminating employees and that errors resulting from the conversion to the Lawson Financial System were found and corrected.

Audit Scope and Methodology

The City Auditor's Office reviewed various documents relating to this follow-up audit. The following methodology was used in completing the audit.

- Reviewed the new common City uniform guidelines incorporated into the Personnel Policy Manual in January 2008
- Reviewed departmental uniform policies and procedures
- Reviewed petty cash reimbursements from January 2008 through October 2008
- Interviewed City staff regarding departmental policies related to uniform expenditures
- Reviewed uniform contracts and efforts made by the Purchasing Division to include all departments that require uniforms on the City's uniform contracts
- Reviewed updated payroll processes

Status of Prior Audit Recommendations

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

Implementation Status:

Fully Implemented. As of January 1, 2008 the City had established common City uniform guidelines that were incorporated within the City's Personnel Policy Manual. This was done in an effort to give departments some flexibility when it comes to uniforms. The common policy contains general provisions and provides guidance concerning safety shoes, IRS regulations, purchasing activities and responsibility for wearing and replacing uniforms.

The City Auditor's Office also reviewed current departmental uniform policies for the following departments:

- Arlington Convention Center
- Community Services
- Fire
- Parks and Recreation
- Police
- Public Works
- Water Utilities

City guidelines require Workforce Services' approval of departmental uniform policies prior to implementation. Our review indicated that all departments obtained prior approval of their updated uniform policies. However, since the Police and Fire Departments did not update their uniform policies, Workforce Services approval was not deemed necessary. Fire and Police departmental policies (which were approved and incorporated into their standard operating procedures prior to the creation of the common City uniform guidelines), therefore, did not contain nor reference the common City uniform guidelines.

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*

Implementation Status:

Fully Implemented. The City Auditor's Office reviewed the updated uniform policies for both departments. The Water Utilities Department's most recent uniform policy revision was February 2008 and includes a reference to the common City uniform guidelines that specifically address the use of petty cash for uniform expenditures. Additionally, the City Auditor's Office reviewed a sample of Water Utilities uniform expenditures for Fiscal Year 2008 and noted that all sampled purchases complied with City and departmental policy.

The Parks and Recreation Department updated its uniform policy in October 2008. The common City uniform guidelines were incorporated into Parks' uniform policy and a statement that purchases will not be made through petty cash funds was included.

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

Implementation Status:

Fully Implemented. The updated Personnel Policy Manual contains a section (309.05) that specifically addresses IRS guidelines concerning uniforms. It not only defines what makes a uniform nontaxable to the employee, but also gives examples of nontaxable items. It also mentions IRS regulations concerning allowances and reimbursements. Finally, it explains that the City will provide a 20% gross up against taxable uniform purchases to offset the increased taxes for taxable uniform items.

In addition to updated policy, the Financial Services Department has developed a City Uniform Payroll Adjustment form available to staff via the Financial Services Department's portal. This form contains information on IRS guidelines pertaining to uniforms. It also allows employees to account for their wage adjustments due to uniform purchases. Employees are required to sign, date, and return the form to the Financial Services Department.

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

Implementation Status:

Fully Implemented. The new common City uniform guidelines outlined a definition of suitable for everyday wear and provides numerous examples. Additionally, it includes a general provision that states, "Departments are responsible for establishing mechanisms to identify, record and report uniform purchases and ensure that the city receives reimbursement as required from employees in cooperation with the Financial Services Department." According to the Payroll Division, it is the responsibility of the department to ensure that Payroll Adjustment forms for uniform items suitable for outside wear are correct, completed properly by applicable employees and sent to the Financial Services Department by December 1.

During a review of updated departmental uniform policies, the City Auditor's Office noted that while some departments address uniform reporting in their policies, the departments did not generally outline detailed procedures or identify the individual responsible for reporting uniform purchases. The City Auditor's Office noted that departments submitted approximately \$91,000 in uniform expenditures to the Financial Services Department to be included in employee tax information for 2008.

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

Implementation Status:

Fully Implemented. In a review of the common City uniform guidelines, it was noted that one of the general provisions states, "Departments are responsible for establishing mechanisms to identify, record and report uniform purchases and ensure that the City receives reimbursement as required from employees in cooperation with the Financial Services Department." During a review of updated departmental uniform policies, the City Auditor's Office noted that the Arlington Convention Center and the Community Services Department incorporated these procedures into their policy. While the Public Works and Water Utilities Departments did not document their detailed methods to identify, record and report uniform purchases, discussions with representatives from those departments indicated that the departments have such mechanisms in place.

Recommendation:

The Water Utilities Director should research the above exceptions [six boot purchases not reimbursed] 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

Implementation Status:

Fully Implemented. The initial audit identified six exceptions in the Water Utilities Department for which the City was not properly reimbursed for uniform expenditures. Two employees had not completed the proper voluntary purchase agreement form and had not reimbursed the City for work boots. As a result of the initial audit, these employees completed the proper paper work and a payroll deduction was initiated. The City was reimbursed \$229.98. There were also four employees identified in the original audit that had completed the proper voluntary purchase agreement form, but due to the conversion to Lawson, these forms were not processed by Financial Services. A review of payroll information indicated that the City received a total of \$344.46 from these four employees.

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

Implementation Status:

Fully Implemented. The Payroll Division of the Financial and Management Resources Department uses a spreadsheet to monitor termed employees for the current pay period. The spreadsheet is updated weekly based on information received from departments. This allows the Payroll Division to determine if deductions should be withheld from final checks or discontinued.

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

Implementation Status:

Fully Implemented. According to the Financial Services Department, all balances were examined and cleared. While the Financial Services Department was unable to provide documentation of this review, the City Auditor's Office noted that four exceptions in the Water Department, as previously mentioned, were corrected and processed properly.

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

Implementation Status:

Partially Implemented. The common City uniform guidelines include a requirement that departments utilize annual uniform and safety shoe contracts or preferred vendors to facilitate cost savings to the City through volume discounts. The City Auditor's Office noted that departments, with the exception of Fire and Police, have provisions in their uniform policies that require the use of annual contracts when possible. While Police and Fire do not have such language in their policies, they currently utilize annual uniform contracts. According to the Purchasing Division, the Public Works Department has an annual contract for safety shoes. Other departments with uniform needs are purchasing off contract and utilizing the Tarrant County and BuyBoard cooperatives which are part of the Local Government Purchasing Cooperative available to schools, cities, counties and other entities. The City's Purchasing Agents are currently in the process of establishing separate uniform contracts for each department with uniform needs. However, Purchasing staff stated the process will not begin until they have received a uniform policy, standard uniform list and point of contact information for each department. The Purchasing Division indicated that they expect to go to bid on departmental uniform contracts in Fiscal Year 2009.