File #14.02

Performance Audit:
Employee Reimbursements

May 2015

City Auditor's Office

City of Atlanta

File #14.02

CITY OF ATLANTA
City Auditor's Office
Leslie Ward, City Auditor
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Performance Audit:

Employee Reimbursement

Why We Did This Audit

We undertook this audit because we were aware of errors in employee reimbursements. Although the city has partially automated requests for reimbursements through Oracle's Internet Expenses (iExpense) module, matching expense reports to cash advance payments is still a manual process. About 1,800 employees received advances or reimbursements totaling $3.5 million in fiscal year 2014.

We analyzed all cash advances outstanding as of October 10, 2014, and analyzed expense reports and reimbursements from fiscal years 2012 to 2014.

What We Recommended

To strengthen controls over employee reimbursements and compliance with IRS reporting guidelines, we recommend the chief financial officer:

- Enforce all provisions within the city's reimbursement policy.
- Reconcile outstanding advances, where feasible, and report remaining advance as wages.
- Apply a risk-based review of expense reports.
- Limit the circumstances under which advances are needed, such as by using a travel agent or travel card.
- Update mileage rates to be consistent with IRS rate.
- Eliminate employee reimbursements outside of iExpense.
- Remove access to iExpense that is not required by an employee's job functions, and prohibit employees from acting as sole approver of their own expense reports.

For more information regarding this report, please use the contact link on our website at www.atlaudit.org.

What We Found

Weak controls over employee reimbursements create risk of non-compliance with IRS reporting and withholding requirements. IRS guidelines allow employers to issue cash advances to employees or to reimburse employees for business expenses incurred on the job without reporting them as taxable income as long as the employee adequately accounts to the employer for the expenses and returns any excess within a reasonable period of time. As of October 2014, $3.6 million in cash advances to 1,828 past and present city employees was outstanding. The median age of the unreconciled cash advances was 26 months. About 20% of the individuals with outstanding advances were no longer employed by the city. Employees may be unaware that they have outstanding advances because the Department of Finance has not followed its reporting and notification procedures.

We found errors in one-third of a random sample of expense reports that employees submitted for reimbursement or to reconcile a cash advance. Errors included missing receipts, receipts that did not match the amount claimed for reimbursement, and claims for excessive per diems and mileage. City code identifies reimbursable expenses related to travel on city business including limits for per diem to cover meals and incidental expenses, hotel, and mileage at the federal government rates. About 16% of the $2.5 million reimbursed to employees in 2014 was for items apparently unrelated to travel, such as for tuition or business lunches. We've previously recommended that finance add procedures to reimburse employees for business expenses incurred other than when traveling.

We reviewed a judgmental sample of 20 expense reports with identical line items and identified three instances in which employees submitted the same expenses for reimbursement twice.

Finally, we identified two problems related to access controls in Oracle's iExpense module that the city uses to process employee advances and reimbursements. First, some employees were set up in the system to approve their own expense reports. Second, some employees were granted system privileges beyond what was required by their job.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1:	The chief financial officer should enforce all provisions within the city's reimbursement policy.	
Response & Proposed Action:	Finance has developed a revised policy for Employee Travel Advances and Reimbursements. Finance will ensure procedures allow for enforcement.	**Agree**
Timeframe:	July 1, 2015	
Recommendation #2:	The chief financial officer should reiterate department responsibilities in reviewing and approving expense reports.	
Response & Proposed Action:	Finance offers training once a month as well as upon departmental request, and will send an updated training schedule to all departments.	**Agree**
Timeframe:	October 31, 2015	
Recommendation #3:	The chief financial officer should notify all employees who have outstanding advances.	
Response & Proposed Action:	DIT will create an alert to notify employees of outstanding advances 10 days after travel. After 15 days, the alert will escalate to the employee's manager.	**Agree**
Timeframe:	December 31, 2015	
Recommendation #4:	The chief financial officer should reconcile outstanding advances to the extent that it is feasible and report the remaining unreconciled advances as wages.	
Response & Proposed Action:	Outstanding advances from 2015 will be reported as income to the IRS. All other un-reconciled advances will be deducted from employee wages.	**Agree**
Timeframe:	January 31, 2016	
Recommendation #5:	The chief financial officer should apply a risk-based review of expense reports instead of the 100% review and consistently document this review.	
Response & Proposed Action:	Finance will conduct and document the formal review of risk-based samples.	**Agree**
Timeframe:	June 30, 2015	
Recommendation #6:	The chief financial officer should identify ways to limit circumstances under which advances are needed such as through the use of travel agents or travel cards.	
Response & Proposed Action:	Finance is currently exploring options to reduce travel advances, and plans to implement minimum and maximum advance amounts to reduce volume.	**Agree**
Timeframe:	July 31, 2017	
Recommendation #7:	The chief financial officer should periodically analyze data to identify and recover overpayments from duplicate reimbursements.	
Response & Proposed Action:	Finance will periodically review advance requests from employees with city credit cards to identify potential duplicate submissions. Finance will also begin to review outstanding and reconciled reimbursements per employee.	**Agree**
Timeframe:	May 1, 2015	

Recommendation #8:	The chief financial officer should adjust mileage rates that differ from the IRS standard mileage rate and reimburse employees the amounts underpaid in error.	
Response & Proposed Action:	Mileage rates will be updated in Oracle annually to conform to IRS standards.	**Agree**
Timeframe:	June 30, 2015	
Recommendation #9:	The chief financial officer should eliminate employee reimbursement outside of iExpense.	
Response & Proposed Action:	We agree with this recommendation and will enforce the policy.	**Agree**
Timeframe:	May 1, 2015	
Recommendation #10:	The chief financial officer should prohibit employees from acting as the sole approver of their own expense reports.	
Response & Proposed Action:	Finance will require additional approval for expenses from all individuals below the level of department head.	**Agree**
Timeframe:	December 31, 2015	
Recommendation #11:	The chief financial officer should review access roles and remove access that is not required by an employee's job functions.	
Response & Proposed Action:	Finance will review access roles and remove those not required by the employee's job function.	**Agree**
Timeframe:	July 31, 2015	
Recommendation #12:	The chief financial officer should segregate the job functions of auditing expense reports and updating the approval workflow.	
Response & Proposed Action:	Finance will ensure that these conflicting responsibilities are segregated.	**Agree**
Timeframe:	July 31, 2015	

CITY OF ATLANTA

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May 4, 2015

Honorable Mayor and Members of the City Council:

We undertook this audit of employee cash advances, reconciliations, and reimbursements for travel and other business expenses because the Department of Finance relies on manual controls to identify errors in expenses claimed and to monitor outstanding advances. We examined these transactions to assess frequency of errors such as employees claiming expenses covered by or in excess of per diem amounts, duplicate reimbursements, or reimbursements for expenses paid with a city credit card. About 1,800 employees received reimbursements totaling $3.5 million in fiscal year 2014.

The Department of Finance has not enforced requirements of the Code of Ordinances and its own policies governing business travel expenses and timely reconciliation of cash advances. As of October 2014, $3.6 million in cash advances to 1,828 past and present city employees was outstanding, with $2.8 million more than 150 days old. Under IRS guidelines, these advances arguably were not accounted for within a reasonable period and should have been reported as taxable wages paid to the employee. The median age of the unreconciled cash advances is 26 months, and about 20% of the individuals with outstanding advances are no longer employees of the city. Failure to enforce compliance with city code and federal tax requirements apparently has continued for several years.

We also found multiple errors in our random sample of 33 expense reports and our judgmental sample of 20 reports with identical line items, suggesting that existing controls are ineffective. System controls in Oracle allow some employees to approve their own requests, and the Department of Finance assigns only one employee to handle a process that still relies on manual review.

The chief financial officer and the controller agreed to implement all of our 12 recommendations, which include immediate actions to enforce current policies, strengthen system controls and develop a risk-based review process. These actions should improve the current process and reduce the risk of IRS non-compliance. In the longer run, however, we recommend fundamental change in how the city handles business and travel expenses with the goal of eliminating reliance on cash advances and reimbursements. Finance agrees to implement a program such as the use of a corporate travel agent or a citywide travel card within the next two years.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Christopher Armstead and Michael Schroth.

Leslie Ward	Don Penovi
City Auditor	Audit Committee Chair

Employee Reimbursements

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Introduction

We undertook this audit of employee reimbursements because the Department of Finance relies on manual controls to identify unreconciled travel advances and errors such as employees requesting reimbursement of expenses covered by per diem, duplicate reimbursements, or reimbursements for expenses paid for with a city credit card. The audit tests the effectiveness of both manual and automated controls and identifies opportunities for improvement. About 1,800 employees received reimbursements totaling $3.5 million in fiscal year 2014.

Background

City code allows employees to receive cash advances and/or reimbursements for business expenses incurred on the job. The provisions are intended to meet the IRS definition of an *accountable plan*. Such a plan allows the employer to issue advances and reimbursements without reporting them to the IRS as taxable income and without complying with employer withholding requirements. An accountable plan must require employees to:

- have paid or incurred deductible expenses while performing services for the employer
- adequately account to the employer for these expenses within a reasonable period of time
- return any excess reimbursement or allowance within a reasonable period of time

IRS guidance describes adequate accounting from the employee as "a statement of expense, an account book, a diary, or a similar record in which you entered each expense at or near the time you had it, along with documentary evidence (such as receipts) of your travel, mileage, and other employee business expenses." The guidance provides no specific definition of a reasonable period of time, noting that it depends on the facts and circumstances of the situation. However, it does state that advances received within 30 days of the time the expense is incurred, accounting for the expense within 60 days after it is incurred, and returning any excess within 120 days after the expense was incurred will be regarded as having taken place within a reasonable period of time. The IRS defines *excess reimbursement* as any amount the employee did not adequately account for within a reasonable period of time.[1] Excess reimbursement is considered a taxable wage and is subject to withholding.

The IRS considers any advance and reimbursement arrangements that fail to meet these requirements, as well as adequate arrangements that are not enforced, as nonaccountable. The employer must include the amount of any excess reimbursements or other expenses paid to an employee with wages reported on the employee's W-2. Exhibit 1 summarizes the IRS reporting requirements for reimbursements or other expense allowances.

Exhibit 1 IRS Business Expense Reporting Requirements

IF the type of reimbursement (or other expense allowance) arrangement is under:	**THEN the employer reports on Form W-2:**
An accountable plan with:	
Actual expense reimbursement: Adequate accounting made and excess returned.	No amount.
Actual expense reimbursement: Adequate accounting and return of excess both required but excess not returned.	The excess amount as wages in box 1.
Per diem or mileage allowance up to the federal rate: Adequate accounting made and excess returned.	No amount.
Per diem or mileage allowance up to the federal rate: Adequate accounting and return of excess both required but excess not returned.	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 12—it is not reported in box 1.
Per diem or mileage allowance exceeds the federal rate: Adequate accounting up to the federal rate only and excess not returned.	The excess amount as wages in box 1. The amount up to the federal rate is reported only in box 12—it is not reported in box 1.
A nonaccountable plan with:	
Either adequate accounting or return of excess, or both, not required by plan.	The entire amount as wages in box 1.
No reimbursement plan:	The entire amount as wages in box 1.

Source: Internal Revenue Service 2013 Publication 463 pg. 32

[1] Internal Revenue Service 2013 Publication 463 pg. 30-32

City code provides for reimbursement for all or a portion of expenses incurred while traveling in an official capacity. Section 2-42 defines specific provisions pertaining to the City Council and staff and section 2-857 pertains to other city employees. Reimbursable expenses include:

- registration fees
- hotel (up to designated convention rate or the federal General Services Administration allowable rate)
- coach or business class airfare
- taxi or busfare
- personal vehicle mileage at the federal government rate, or rental car
- per diem to cover meals and incidental expenses at the federal government rate.

Requests for convention, training or travel expenses must be approved in advance by the chief judge for judges, solicitors, and members of their staffs; by the councilmembers for their staffs; and by the mayor or designee for other employees. City employees must provide an itemized expense account and unspent advanced funds to the chief financial officer within seven days of the end of travel. The code authorizes the Department of Finance to establish administrative procedures to process business expense reimbursements.

Employees with approval to travel may choose to receive a travel advance prior to their trip to cover estimated authorized expenses or may choose reimbursement upon return of funds used for authorized business expenses. Advances for registration, airfare, and a one-night hotel deposit may be issued within six months of the travel date. Mileage allowance, per diem, and hotel cost less than the deposit are supposed to be issued within seven days of the travel date. Employees are required to file an itemized expense account within seven days of return. Receipts are required to document expenses other than per diem, which includes meals, including taxes and tips, transportation to where meals are taken, tips to baggage handlers and taxi drivers, and mailing costs. Alcoholic beverages, expenses for family members, excessive meal and lodging charges, personal items, and movies charged to hotel/motel bills are unallowable expenses.

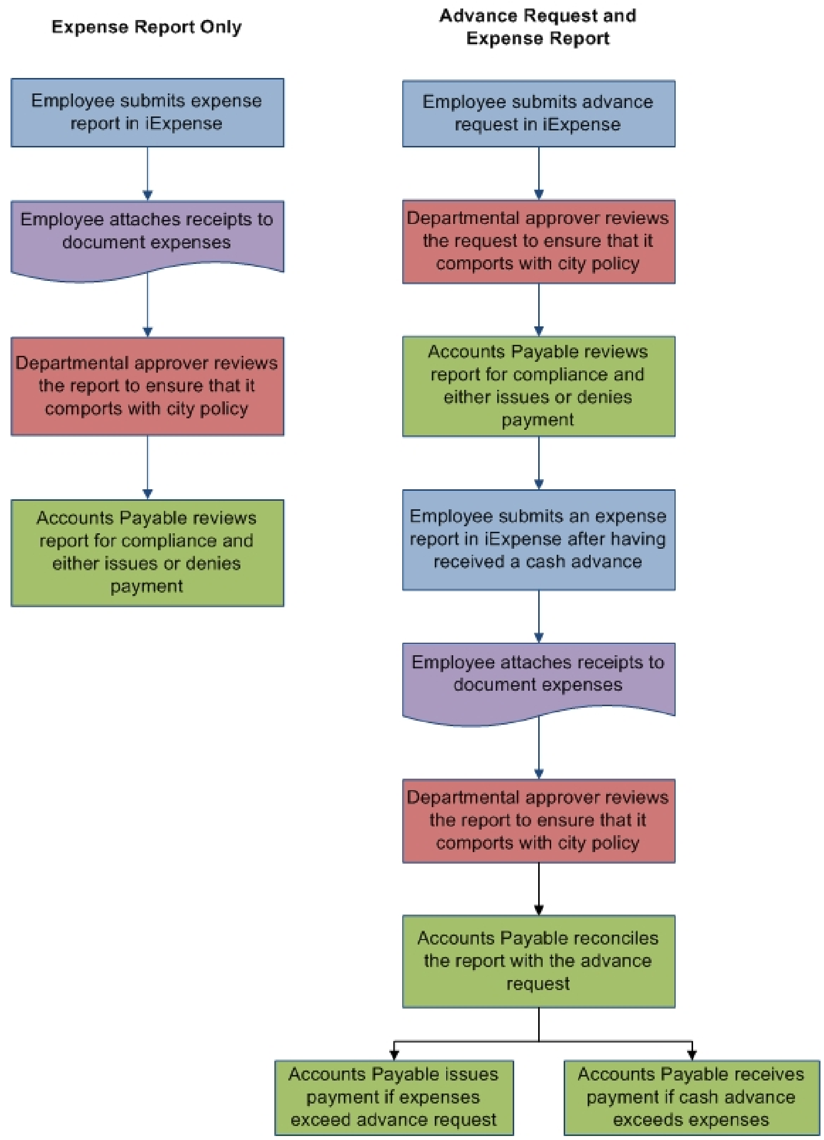
According to the policy, the Accounts Payable Division will generate a report the first week of each month listing expense reports that are 30 days past due to the chief operating officer, the chief financial officer, and each department or agency head. The division sends the report to the Council President in the event that a member of City Council or the Municipal Clerk's Office is past due. An advance that appears on the report will result in the suspension of future travel advances and reimbursements. The Accounts Payable Division will notify employees who have not cleared advances that are past due, requesting them to file the expense report with required receipts. When reconciliation is outstanding more than 30 days and is outstanding at December 31st of any year, the full amount of the advance will be included as taxable wages on the W-2 for that year for that employee.[2]

The city uses Oracle's Internet Expenses (iExpense) module to process employee requests for reimbursement. Since mid-2014, employees are also able to request cash advances prior to traveling or incurring business expenses through the module. The Department of Finance used manual forms to process advance requests before mid-2014 and used manual forms to process reimbursement requests prior to 2008.

Exhibit 2 shows the city process for filing advance requests and expense reports. An employee submits an advance request or expense report in iExpense. The electronic form includes fields to describe expense types, receipt amounts, justifications, and event details such as dates, location, and purpose. In 2014, the Accounts Payable Division started requiring employees to attach scanned copies of receipts with the electronic report in Oracle. Before then, employees submitted paper copies of receipts with a printed copy of the electronic form to the division.

[2] Travel, Training and Relocation Expenses Policies and Procedures, City of Atlanta Department of Finance, May 4, 2007.

Exhibit 2 City Workflow for Advance Requests & Expense Reports



Source: Prepared by audit staff from interviews with accounts payable staff

Finance still reimburses employees for some transactions outside of iExpense. These direct payments to employees totaled about $103,000 in fiscal year 2014.

Audit Objectives

This report addresses the following objective:

- Are manual and automated controls effective to ensure compliance with city policy and IRS regulations?

Scope and Methodology

We analyzed all cash advances outstanding as of October 10, 2014, and analyzed expense reports and reimbursements, mostly focusing on fiscal years 2012 to 2014. Our audit methods included:

- Reviewing city ordinances and city policy
- Interviewing management and line personnel to understand standard operating procedures and departmental practices
- Reviewing relevant IRS guidelines
- Compiling and analyzing expense reports
- Sampling iExpense reports to review for errors and potential double-dipping
- Compiling and analyzing outstanding advances
- Compiling and analyzing non-payroll related payments made to employees outside of iExpense
- Sampling and comparing city credit card statements with iExpense reports
- Analyzing information technology controls for user access levels
- Researching employee advance and reimbursement best practices

We conducted this audit in accordance with generally accepted government auditing standards. Generally accepted government auditing 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 Analysis

Weak Controls over Employee Reimbursements Increase Risk

The Department of Finance's failure to enforce city code and policy creates risk of non-compliance with IRS reporting and withholding requirements. As of October 2014, $3.6 million in cash advances to 1,828 past and present city employees was outstanding, with $2.8 million more than 150 days old. Arguably, these advances have not been accounted for within a reasonable period of time under IRS guidelines and should have been reported as wages. The median age of the unreconciled cash advances is 26 months and about 20% of the individuals with outstanding advances are no longer employees of the city.

To ensure that the city complies with IRS regulations, we recommend that the Department of Finance notify all employees with outstanding advances and reconcile these advances to the extent feasible. The department should report the remaining unreconciled advances as wages. To reduce risk going forward, the Department of Finance should limit the circumstances under which advances are allowed, such as through use of a travel agent to pay for airfare and hotel costs, and should enforce its policy that employees document expenses within 7 days. The department should also comply with its reporting responsibilities under the policy.

Finance department and departmental review of submitted expense reports are prone to error. Our review of a random sample of 33 employee expense reports identified 11 with errors including missing receipts, receipts that did not match the amount claimed for reimbursement, and claims for excessive per diems and mileage. We reviewed a judgmental sample of 20 expense reports with identical line items and identified three instances in which employees submitted the same expenses for reimbursement twice.

We recommend accounts payable apply a risk-based review of expense reports. The division should also periodically analyze data to identify potential duplicate submissions and recover overpayments from duplicate reimbursements. We also recommend the Department of Finance discontinue reimbursements to employees outside of iExpense and create a policy to govern the reimbursement of non-travel related business expenses.

We also identified weak controls related to the administration of Oracle's iExpense module, including 43 employees below the level of department head who are authorized to approve their own advances and expenses and 11 employees who have system access to key capabilities that their job functions do not require.

To decrease risk of reimbursing noncompliant expenses, the department should restrict employees from acting as the sole approver of their own expense reports. The Department of Finance should work with the Department of Information Technology to review the access roles and remove access that is not required by an employee's job functions. The Department of Finance should also work with the Department of Information Technology to segregate the job functions of auditing expense reports and updating the approval workflow.

Failure to Reconcile $3.6 Million in Advances Puts the City at Risk of Non-Compliance with IRS Guidelines

Department of Finance employees acknowledged that they have not enforced provisions of city code and city policy to ensure that employees promptly account for expenses after receiving cash advances. As of October 2014, $3.6 million in advances was outstanding with $2.8 million more than 150 days old. Because the department has not generated monthly reports or notified employees of past due reports, employees may be unaware that they have outstanding advances. Further, the department's reliance on manual records until recently could have resulted in errors or lost receipts.

The Department of Finance failed to enforce city code and policy. While city code requires employees to file an itemized expense report within seven days of return from authorized travel and city policy requires finance to include outstanding advances in an employee's income at the end of the year when the report is at least 30 days past due, finance staff told us that they do not enforce these provisions. Further, staff told us that they do not generate the monthly report to the chief operating officer, chief financial officer, and department or agency heads all listing advances that are 30 days past due. Nor do staff notify employees of past due outstanding advances. According to city policy, the department will suspend future travel advances and reimbursements while an employee has an outstanding advance on this report. Department staff told us that they informally allow employees to have up to four outstanding advances. Employees may be unaware that they have outstanding advances.

As of October 2014, $3.6 million in cash advances to 1,828 city employees was outstanding. As of October 2014, about 34% of the $13.2 million in advances to city employees recorded on the city's books since 2004 is unreconciled or partially reconciled. An unreconciled advance refers to a cash advance for which the employee has submitted no receipts to account for estimated expenses. A partially reconciled advance refers to a cash advance for which the employee either has accounted for some of the estimated expenses or has repaid the city a portion of the excess. As of October 2014, nearly 3,000 advances totaling $3.4 million were unreconciled and 614 advances totaling $900,000 were partially reconciled (see Exhibit 3). The unreconciled amounts per employee ranged from less than a dollar to almost $40,000; 244 employees accounted for half of the outstanding amount of the unreconciled advances.

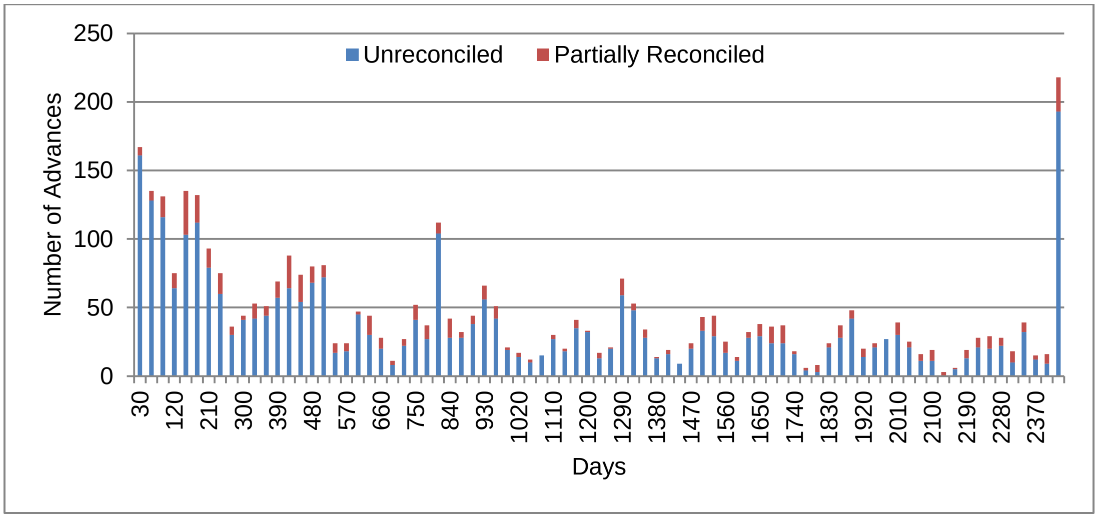
Exhibit 3 Number and Amount of Advances by Reconciliation Status

Status	Advance Amount Issued	Number of Transactions	Percent
Unreconciled	$3,379,177	2,996	28.0%
Partially Reconciled	$936,693	614	5.7%
Reconciled	$8,919,154	7,073	66.2%
Total	$13,235,024	10,683	100.0%

Source: Oracle Financial Application as of October 10, 2014

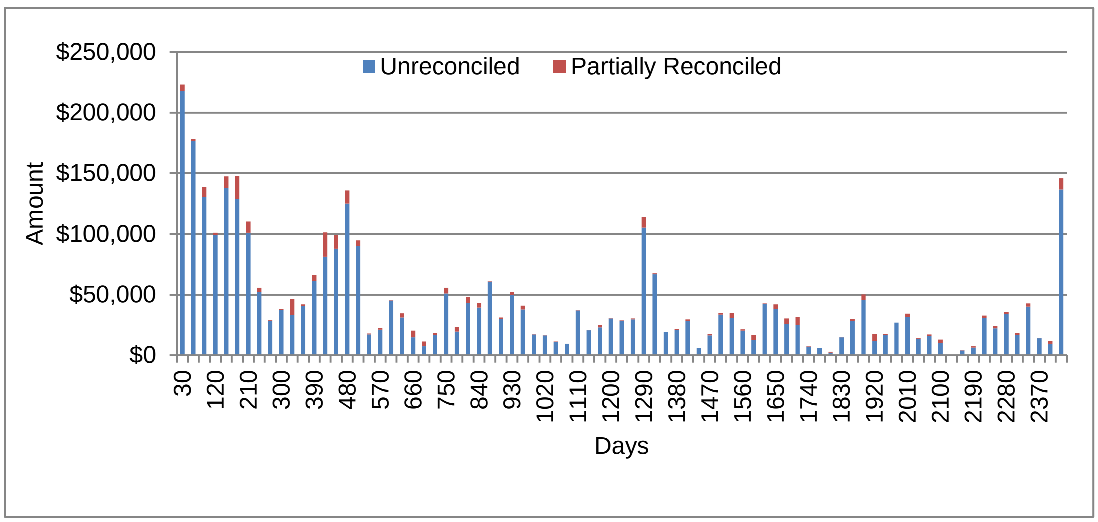
Most outstanding advances extended beyond the IRS definition of a "reasonable period of time." The median ages of unreconciled and partially reconciled cash advances are 25 and 27 months, respectively. About $2.8 million of the unreconciled advances is more than 150 days old. Arguably, these advances have not been accounted for within a reasonable period of time under IRS guidelines and should have been reported as wages. IRS guidelines allow employees to receive advances within 30 days of incurring an expense. When the employee fails to adequately account for the advance, it becomes excess reimbursement. IRS guidelines give employees 120 days to return excess reimbursement. Therefore, the expected time from receiving the advance to returning the excess is 150 days. Exhibit 4 shows the number of outstanding advances by age in 30-day increments; 78% are older than 150 days and the oldest advances are more than 2,400 days old—over six years. Exhibit 5 shows the dollar value of the outstanding advances in 30-day increments.

Exhibit 4 Number of Outstanding Advances by Age and Reconciliation Status



Source: Oracle Financial Application as of October 10, 2014

Exhibit 5 Amount of Outstanding Advances by Age and Reconciliation Status



Source: Oracle Financial Application as of October 10, 2014

Former employees account for 20% of the total unreconciled advances. Of the nearly 2,000 employees with outstanding advances, nearly 400 no longer work for the city. These individuals collectively account for over $700,000 or 20% of the unreconciled amount of advances (see Exhibit 6).

Exhibit 6 Amount of Outstanding Advances by Employee Status

Employee Status	Number	Percent of Total Number	Total Amount Unreconciled	Percent of Total Amount
Current	1,430	78.2%	$2,914,582	80.2%
Former	398	21.8%	$719,832	19.8%
Total	1,828		$3,634,414	

Source: Oracle Financial Application as of October 10, 2014

Some of the unreconciled amount on the books could be in error. Although employees now submit both advance requests and expense reports electronically through the iExpense module, staff in accounts payable manually reviews and reconciles expenses with advances based on judgment. For most of our review period, requests for advance were submitted on paper forms and expense reports were submitted electronically. We are aware of instances in which the division reconciled submitted expenses to the wrong advance, resulting in inaccurate calculation of excess reimbursement. Further, because employees compiled and submitted paper copies of receipts during most of our review period, it's possible that lost receipts could account for some of the unreconciled amounts.

We also found that the mileage rate in the iExpense system was lower than the IRS standard mileage rate, which would result in incorrect calculation of excess reimbursement when mileage was advanced, as well as underpayment of mileage due to employees when it was reimbursed. We queried all paid expense reports in iExpense from fiscal years 2012 to 2014 for mileage reimbursement rates that did not match the IRS standard mileage rates and identified a total difference of $19,604. We cannot tell how much of this amount is part of the $900,000 in partially reconciled advances because most of the itemized advance requests are not in Oracle.

To ensure compliance with IRS regulations, we recommend the department notify all employees who have outstanding advances to submit receipts documenting their expenses. The department should reconcile these advances to the extent feasible and report the remaining unreconciled advances as wages consistent with IRS regulations. As part of this reconciliation, the department should ensure correct mileage rates were applied and reimburse employees the amounts underpaid in error.

To reduce risk going forward, we recommend the Department of Finance consider ways to limit the circumstances under which advances are needed. The department could accomplish this through the use of a travel agent or departmental purchasing cards to pay for airfare and hotel costs, for example. Some registrations or tuition costs could be paid for through the procurement process. The department should discontinue cash advances for mileage. However the department chooses to limit advances, it should enforce its policy that employees document expenses within 7 days and comply with its internal and external reporting responsibilities under the policy. Additionally, the department should seek to automatically link expense reports with the appropriate advance as part of the planned Oracle upgrade.

The Departments' Review and Reconciliation Processes Are Susceptible to Error

Despite multiple levels of review and approval, we found errors in one-third of our random sample of 33 expense reports, suggesting that existing control are ineffective. It's possible that the multiple levels of review diffuse accountability.

We also found three instances from a judgmental sample of ten expense report pairs in which an employee submitted the same expense for reimbursement twice. We were unable to confirm or disconfirm that two other pairs were duplicate reimbursements due to lack of receipts.

All advances and expense reports are subject to at least two levels of review and approval. When an employee submits an expense report for reimbursement or reconciliation in Oracle's iExpense module, the system routes the report to pre-appointed approver(s) within the employee's department and cost center. The approver(s) should carefully review the expense report for error prior to approval. After departmental approval, the system routes the expense report to the Accounts Payables Division for final approval. Finance staff members stated that they do not scrutinize advances but review every expense report except mileage and per diem for compliance with city policy.

We identified problems in expense reports including unallowable expenses, lack of documentation, double-dipping, and misapplied advances. We identified problems in 11 of 33 randomly sampled iExpense transactions. Problems included missing receipts, receipts that did not match the amount claimed for reimbursement, and claims for excessive per diems, mileage, and hotel charges.

Twenty-four of the 33 expense reports had no evidence of accounts payable's review; however, staff stated that they did not document reviews prior to June 2013. Three of the reports had no documentation of approval at the departmental level. Two exceptions were in reports for which accounts payable staff and departments had documented review.

We randomly selected and obtained documents for 33 paid expense reports from two batches. We selected 25 expense reports from all 10,859 iExpense expense reports paid between fiscal years 2012 to 2014. We selected 8 expense reports from 79 transactions that we identified as iExpense expense reports that finance entered on behalf of employees. We tested for appropriate management approval, department reviews, receipts supporting each expense, and whether expenses were allowable under city policy.

We also queried iExpense to identify whether employees submitted two separate expense reports with the same line items. We judgmentally selected ten pairs (20 expense reports) to review documentation supporting the expenses. We confirmed that employees submitted the same receipt for reimbursement twice in three of the pairs. We were unable to determine whether two other pairs were duplicates because of lack of documentation.

We also reviewed five randomly selected months of statements for city credit cardholders. From the 34 statements that we reviewed, we identified one instance in which an employee submitted a receipt for reimbursement of an expense purchased with a city credit card.

We recommend accounts payable review expense reports based on risk and consistently document this review. The division should also periodically analyze data to identify potential duplicate submissions and recover duplicate reimbursements. We also recommend finance reiterate department responsibilities in reviewing and approving expense reports.

City Policy Should Provide Guidance for Direct Payments and Non-Travel Business Expenses

We recommended in the October 2004 *Travel and Training Expense Reimbursements* audit that finance add procedures to reimburse employees for business expenses incurred other than when traveling. While iExpense expense entry options include expense categories for business expenses not related to travel, current city policy provides no guidance. About 16% of the $2.5 million reimbursed to employees in 2014 was for items apparently unrelated to travel. The largest categories were for supplies, tuition, business lunches, and City Council miscellaneous expenses.

We reiterate our previous recommendation that the department update the policy to cover the reimbursement of non-travel related business expenses.

The city should consider eliminating direct payments to employees. The city made 1,713 direct payments to employees totaling about $630,000 in fiscal years 2012 through 2014. A direct payment originates with a manual disbursement form rather than an electronic iExpense form or purchase order and provides less information about the nature of the payment. The total amount paid directly to employees was about $100,000 in fiscal year 2014 (See Exhibit 7). Although the amount of direct payments to employees has decreased as finance has encouraged departments to use iExpense, processing transactions outside of the normal process is risky.

Exhibit 7 Amount of Direct Payments to Employees

Fiscal Year	Amount
2012	$381,071
2013	$148,176
2014	$102,738

Source: Oracle Financial Application

In a random sample of 25 direct payments, we found five that lacked documentation to support that the reimbursement was for city business, one was missing a receipt, and one had no approval in Oracle but had a paper approval with an illegible signature.

We recommend that the department eliminate employee reimbursements outside of iExpense.

Inappropriate System Access Weakens Controls

Controlling system access is critical for ensuring the integrity of data necessary to monitor employee reimbursements. Our review of the authorized users and levels of access identified two problems related to access controls. First, some employees were set up in the system to approve their own expense reports. Second, some employees were granted system privileges beyond what was required by their job.

We identified 52 employees set up in the system as sole departmental approver of their own expense reports, including 43 below the level of department head. City Policy allows elected officials, the mayor's chief of staff, the chief executive officer, and department heads to approve their own expense reports. Requests from all other employees are supposed to be approved by department head, division head, director, or designee. Approval reduces the risk of unauthorized, inaccurate, and non-compliant submissions. The system configuration permits 52 employees, including 43 below the level of deparmtent head, to both submit and approve a transaction without further scrutiny from a separate department authority. The failure to segregate the duties of submission and approval increases the risk of unauthorized, inaccurate, and noncompliant travel advances and expense reports.

We recommend finance prohibit employees from acting as the sole departmental approver of their own expense reports, including department heads.

Eleven employees maintain access to the system beyond what is required for their job functions. We identified four Oracle access roles that contained system privileges for employee reimbursements. Of the six employees assigned these roles, three did not require the access to perform their job duties. In addition, we identified a separate access role that granted the ability to modify the approvers table. This access enables the user to update the approval workflow for any department. Of the 11 employees identified with this access, eight employees did not require it to perform their job functions. Inappropriate access to the approvers table may lead to unauthorized users having the ability to approve a travel advance or expense report.

We recommend the department review the access roles and remove access that is not required by an employee's job functions. Additionally, we recommend that the department segregate the the job functions of auditing expense reports and updating the approval workflow.

Recommendations

To strengthen controls over employee reimbursements and compliance with IRS reporting guidelines, we recommend the chief financial officer:

1. Enforce all provisions within the city's reimbursement policy.

2. Reiterate department responsibilities in reviewing and approving expense reports.

3. Notify all employees who have outstanding advances.

4. Reconcile outstanding advances to the extent that it is feasible and report the remaining unreconciled advances as wages.

5. Apply a risk-based review of expense reports instead of the 100% review and consistently document this review.

6. Identify and implement ways to limit circumstances under which advances are needed such as through use of a travel agent or travel card program to pay for airfare and hotel costs.

7. Periodically analyze data to identify potential duplicate submissions and recover overpayments from duplicate reimbursements.

8. Correct mileage rates that differ from the IRS standard mileage rate and reimburse employees the amounts underpaid in error. Going forward, update mileage rates to be consistent with IRS rate.

9. Eliminate employee reimbursements outside of iExpense.

10. Prohibit employees from acting as the sole approver of their own expense reports.

11. Review the access roles and remove access that is not required by an employee's job functions.

12. Segregate the job functions of auditing expense reports and updating the approval workflow.

Appendices

Appendix A
Management Review and Response to Audit Recommendations

Report # 14.02	Report Title: Employee Reimbursements		Date: 4/06/2014
Recommendation Responses - Chief Financial Officer			
Rec. #1	The chief financial officer should enforce all provisions within the City's Reimbursement Policy.		**Agree**
	Response:	Finance has developed a revised policy for Employee Travel Advances and Reimbursements, including specific language around non-travel related business expenses. Once the policy is approved, Finance will ensure that procedures are in place to allow for enforcement. The policy will be made available for distribution no later than July 1, 2015.	
	Implementation Timeframe:	July 1, 2015	
	Responsible Person:	Jim Beard, CFO	
Rec. #2	The chief financial officer should reiterate department responsibilities in reviewing and approving expense reports.		**Agree**
	Response:	We agree with this recommendation and offer training once a month, through the ERP calendar, as well as upon departmental request. We will send an updated training schedule to all departments by October 2015.	
	Implementation Timeframe:	October 31, 2015	
	Responsible Person:	Jim Beard, CFO	
Rec. #3	The chief financial officer should notify all employees who have outstanding advances.		**Agree**
	Response:	Any employee with an outstanding advance over 60 days old will be notified before the close of FY15. An alert is being developed in DIT to notify an employee 10 days from the last day of travel. The first escalation will be on day 15 to the employee's manager and every day thereafter until the advance is reconciled. This alert should be completed by December 31, 2015.	
	Implementation Timeframe:	December 31, 2015	
	Responsible Person:	Jim Beard, CFO	

Rec. #4	The chief financial officer should reconcile outstanding advances to the extent that it is feasible and report the remaining un-reconciled advances as wages.	**Agree**
Response:	Any outstanding advances from calendar year 2015 that have not been reconciled as of 11/30/2015 will be reported as income on the employees' W-2 in January 2016. All other un-reconciled advances prior to 2015 will be set up as a Payment Due to The City in the payroll module to deduct the outstanding balance. This process will be implemented in phases beginning January 2016.	
Implementation Timeframe:	January 31, 2016	
Responsible Person:	Jim Beard, CFO	
Rec. #5	The chief financial officer should apply a risk-based review of expense reports instead of the 100% review and consistently document this review.	**Agree**
Response:	Finance will ensure that the formal review of a risk based sample of expense reports is documented by June 30, 2015.	
Implementation Timeframe:	June 30, 2015	
Responsible Person:	Jim Beard, CFO	
Rec. #6	The chief financial officer should identify and implement ways to limit circumstances under which advances are needed such as through the use of a travel agent or travel card program to pay for airfare and hotel costs.	**Agree**
Response:	The Department of Finance is currently exploring various options to reduce travel advances, including commercial card programs administered at the department level and managed by Finance. Finance will also implement minimum and maximum advance amounts to reduce the volume. We expect to have this implemented by July 2017.	
Implementation Timeframe:	July 31, 2017	
Responsible Person:	Jim Beard, CFO	
Rec. #7	The chief financial officer should periodically analyze data to identify potential duplicate submissions and recover overpayments from duplicate reimbursements.	**Agree**
Response:	There are currently 11 credit cards being used by City employees. Finance will periodically review advance requests for these individuals to identify potential duplicate submissions and request repayment if necessary by December 2015. In addition, reports are being created to easily periodically review outstanding and reconciled reimbursements by employee name. This report will be completed by December 2015. Until such time a manual review will take place periodically by running the seeded prepayments report in Oracle beginning May 1, 2015.	
Implementation Timeframe:	May 1, 2015	
Responsible Person:	Jim Beard, CFO	

Rec. #8	The chief financial officer should correct mileage rates that differed from the IRS standard mileage rate and reimburse employees the amounts underpaid in error. Going forward, update mileage rates to be consistent with IRS rates.	**Agree**

Response:	Mileage rates will be updated in Oracle annually to conform to published IRS rates by June 2015.
Implementation Timeframe:	June 30, 2015
Responsible Person:	Jim Beard, CFO

Rec. #9	The chief financial officer should eliminate employee reimbursement outside of iExpense.	**Agree**

Response:	We agree with this recommendation and will enforce the policy beginning May 1, 2015.
Implementation Timeframe:	May 1, 2015
Responsible Person:	Jim Beard, CFO

Rec. #10	The chief financial officer should prohibit employees from acting as the sole approver of their own expense report.	**Agree**

Response:	Finance will ensure that individuals below department head who currently have the capability to approve their own expenses will have Oracle workflow changed to require additional approval by December 2015.
Implementation Timeframe:	December 31, 2015
Responsible Person:	Jim Beard, CFO

Rec. #11	The chief financial officer should review the access roles and remove access that is not required by an employee's job functions.	**Agree**

Response:	Finance will review access roles and remove those not required by the employee's job function by July 2015.
Implementation Timeframe:	July 31, 2015
Responsible Person:	Jim Beard, CFO

Rec. #12	The chief financial officer should segregate the job functions of auditing expense reports and updating the approval workflow.	**Agree**

Response:	Finance will ensure that these conflicting responsibilities are not assigned to any individual by July 2015.
Implementation Timeframe:	July 31, 2015
Responsible Person:	Jim Beard, CFO