

**Performance Audit 16-06:
Citywide Travel Expenditures**

December 2016

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 13, 2016

To: Mayor Andy Berke
City Council Members

Subject: Citywide Travel Expenditures (Report #16-06)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Citywide Travel Expenditures. Our audit found that Finance typically processes travel advances and expense reimbursements timely. However, we found expense reports are not submitted timely and in some instances not submitted to Finance as required by policy. We also found the need for training and increased oversight by department heads to improve compliance with policies. In order to address the noted areas for improvement, we recommended actions to improve policies and procedures and promote accountability in spending.

We thank the management and staff of the Finance, Public Works, and Police departments for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Stacy Richardson, Chief of Staff
Maura Sullivan, Chief Operating Officer
Daisy Madison, Chief Financial Officer

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2016 Audit Agenda. The objectives of this audit were to determine if:

- Travel advances and expense reimbursements are processed timely and efficiently;
- Travelers are in compliance with travel policies and procedures; and,
- Expense reports are submitted as required by policy.

BACKGROUND

City Code Section 2-504 gives the city finance officer supervisory responsibility of all accounts and financial records for every department and agency of the city. In addition, the code provides budgetary and auditing control over the city's revenues and expenditures.

The Finance Department established the *Travel Regulations*. The *Travel Regulation* policy explains, in detail, the responsibility of City employees traveling at the expense of the City. Employees are expected to be conservative and keep adequate records to support reimbursement claims. These policies were incorporated with the City of Chattanooga's *Employee Information Guide*¹ in 2015.

The City has adopted the U.S. General Services Administration's per diem rates for lodging, meals, and incidental expenses. The rates are commonly referred to as CONUS and are found at www.gsa.gov. Reimbursement for lodging expenses are limited to the lesser of actual rate or the CONUS rate. Both travel related forms and travel regulations are available on the City's Intranet [home page](#).

The City's policy meets the IRS definition of an *accountable plan*. The *accountable plan* allows the employer to issue advances and reimbursements without reporting them to the IRS as taxable income if all requirements are met. The requirements include:

- (1) The expense has a business (municipal) purpose;

¹ Policy effective September 8, 2015. Prior to its issuance, Finance's *Travel Regulations (Revised October 15, 2007)* was the governing policy. The *Employee Information Guide* includes the Finance policy verbatim.

- (2) The employee adequately accounts for the expenses within a reasonable period of time; and,
- (3) The employee returns any excess reimbursement or advance within a reasonable period of time.

The definition of reasonable period of time depends on the facts and circumstances. As shown in Exhibit 1, the IRS regulations, in general, are less stringent than the policies established by the Finance Department.

Exhibit 1: Definitions of Reasonable Period of Time

Action	IRS Guideline	City's Policy
Employee receives a travel advance	Allowance is reasonably expected to be no more than your expense	None
	Allowance is issued within 30 days of the time you have an expense	Will not be issued more than two (2) weeks prior to the travel date
Adequately account for travel expenses (submit travel expense report)	Within 60 days after the expenses were paid or incurred	Within three (3) weeks of the return date
Return any excess reimbursement	Within 120 days after the expense was paid or incurred	Within three (3) weeks of the return date

Source: IRS Publication 463 (2015): Travel, Entertainment, Gift, and Car Expenses and Chattanooga's **Employee Information Guide**

If the travel advances and expenses are not properly accounted for within the reasonable time period, the disbursement no longer qualifies under the *accountable plan*. Without an accountable plan, expense reimbursements become taxable wages to the employee. The employer would be required to pay payroll taxes and withhold income taxes on the reimbursement/advance amounts.

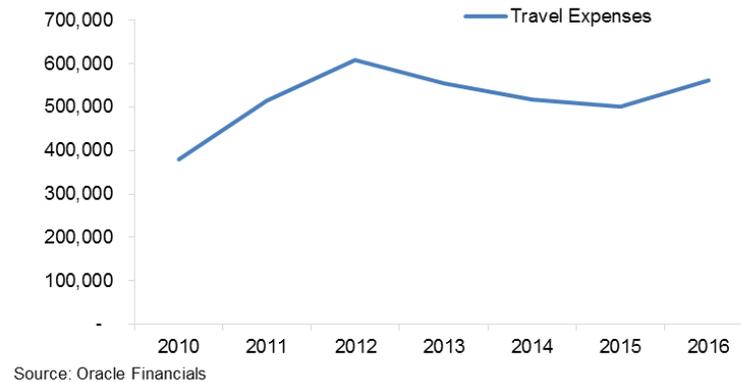
Financial Information

On average, the City spends in excess of \$500,000 per year for travel related expenses². For fiscal years ending June 30, 2015 and 2016, the City paid \$501,376.53 and \$560,738.83, respectively. As depicted in

² Source of information from Oracle Financials using the past 7 years of data (July 1, 2009 through June 30, 2016).

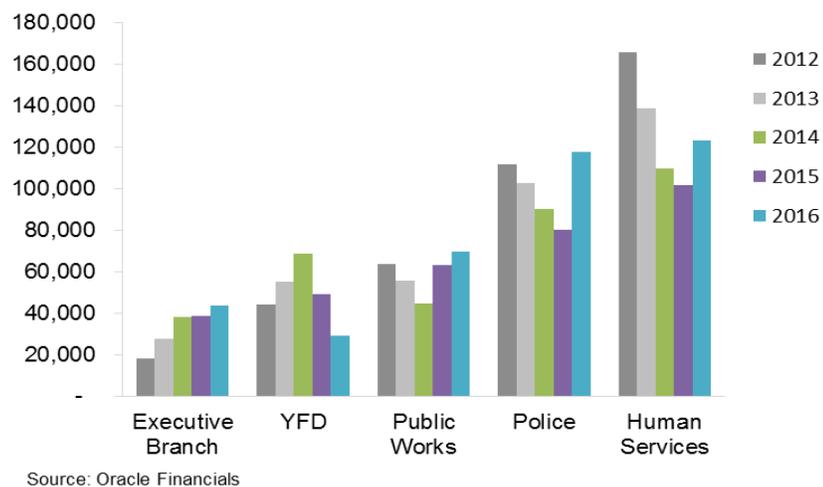
Exhibit 2, citywide travel expenses showed steady decline between fiscal years 2012 to 2015.

Exhibit 2: Total cost of travel expenses per fiscal year



Travel expenses across departments range from \$5,000 to \$123,000 per fiscal year. Human Resources, General Services and Transportation departments had the lowest annual spending, with each spending less than \$7,000 during fiscal year 2016. The highest spending department/divisions include the Executive Branch³, Youth & Family Development⁴ (YFD), Public Works, Police and Human Services. The five year comparison of total spending by these departments/divisions is shown in Exhibit 3.

Exhibit 3: Total cost of travel expenses, by department



³ Executive Branch includes the Mayor’s Office, Family Justice Center, and Multicultural Affairs.

⁴ Formerly a separate department in 2012, Human Services divisions’ travel expenses were separated from YFD for comparison purposes.

Police and Public Works departments’ travel expenses have increased slightly since 2012. While spending has declined for Human Services, the division expends 23% of the City’s travel costs each year. The remaining divisions of the Youth & Family Development department have reduced spending drastically while the Executive Branch has steadily increased spending over the past five years.

FINDINGS AND RECOMMENDATIONS

Improve and enforce policies to reduce non-compliance with travel regulations.

We reviewed a sample of travel-related payments made by warrant voucher and/or city purchase cards. We verified all transactions were properly documented and approved. We also verified the travel expenditure followed stated policies. As shown in Exhibit 4, we found the following departures from stated policies.

Exhibit 4: Travel Regulations with compliance issues

Category	Travel Regulation	Rate of Error
Travel Advance	Cash advances will not be issued more than two (2) weeks prior to the travel date.	20%
	Employees who have delinquent travel reports outstanding will not be issued new travel advances until expense reports have been submitted for prior trips and amounts due the City have been cleared.	1%
Expense Report	The "Travel Expense Report" is due to the Accounting Department within 3 weeks of the return date of the trip. Failure to adhere to this policy may result in payroll deduction for any travel disbursement made by the City of Chattanooga.	20.5%
	All personnel must account for each travel instance with a "Travel Expense Report" even if there is no balance payable by the City or due from the employee.	12%
All Travel Related Expense	Reimbursement (for lodging) is limited to the lesser of your actual single occupancy rate or the CONUS rate. However, conference hotels are reimbursed at 100% of actual cost.	10%
	Reimbursement, advance and/or prepaid travel will not be made without proper authorization	6%
	Departure or return dates which are more than one day outside the official start or end of a business trip will be considered personal travel and will not be reimbursed unless it results in a lower total cost to the City.	4%

Source: Compiled by auditor, Statistical Sampling Results

Our review of the policies and current processes identified several areas needing improvement. Policies and procedures should provide the mechanism to ensure all personnel are reporting as required, policy violations are properly addressed by Administration, and all employees receive the appropriate level of training.

Improvement to travel advance policies

Travel advances totaling \$171,278 were paid to employees during the two year scope. The city issued 204 travel advances in fiscal year 2015 compared to 185 travel advances during fiscal year 2016. Although the number of advances decreased by 9%, the total dollar value increased 64.8% from \$64,680 to \$106,597 in 2016.

IRS guidelines state the allowance should reasonably be expected to be **no more** than the total travel expense. As support for the advance request, the City policy only requires a convention brochure. Typically, the brochure will include the registration fees, travel dates and hotel rates. The brochure alone doesn't provide the total cost of the trip.

We reviewed 46 travel advance requests, totaling \$20,260. Nine (or 20%) of the advances exceeded \$800, ranging from \$825 to \$1,220. The only support attached to document these advances was a conference brochure. While using the brochure documented the travel dates, it failed to provide information needed to confirm the allowance didn't exceed the travel expenses.

We also found only 24% of the advances in our sample had adequate documentation to support the advance requested. All of these advances included a completed "Travel Request" form. As shown in Appendix B, the "Travel Request" form provides an estimate of all costs related to the travel. Including this form as support to the advance will ensure the City meets the IRS guidelines.

Recommendation 1:

We recommend Finance update the policies to require a "Travel Request" form as support documentation for all travel advance requests.

Auditee Response: We will revise the existing Travel Advance Form to incorporate support for the travel advance request. The current optional "Travel Request Form" will no longer be available. The name of the revised form will be "Travel Advance Request Form".

Auditor Comment: We believe the Travel Request Form should be utilized city-wide as a uniform method of expenditure control and should be maintained as a required document to be completed prior to any travel related expenditures or commitments. See our additional comments following later auditee responses.

Improvement to travel advance forms

As shown in Exhibit 4, almost 20% of the sampled cash advances were issued more than two weeks prior to travel date. Employees received travel advances, on average, 17.8 days prior to the travel date.

Per the IRS guidelines, travel advances under the accountable plan can be issued within 30 days of the time you have an expense. The average time required to process a travel advance request depends on the method of issuance. Advances issued via payroll check required, on average 11.6 days, compared to 4.94 days through warrant vouchers.

Without knowledge of the actual process time, employees will request advances too early. In some cases, the Finance Department will hold the request on their desk until closer to travel date.

Recommendation 2:

We recommend Finance develop a mechanism to ensure outstanding advances are settled prior to issuance of a second advance to an employee.

***Auditee Response:** Travel policy will be revised to include a provision that allows a second advance if travel is anticipated within the three week period subsequent to the ending travel date for the applicable allowance. Finance will continue to monitor advances for compliance with policy.*

Recommendation 3:

We recommend the policy clearly define the timeframe needed to request the advance, as well as the required support documentation. The policy should include, but is not limited to, the method of payment (payroll or warrant), the earliest submission date based on method, and the support documents required.

***Auditee Response:** Travel policy will be revised to extend the lead time to request an advance to 30 days for both methods of payment.*

Recommendation 4:

We recommend Finance consider updating the “Travel Advance Request” form by including fields for the method of payment (warrant or payroll) and a submission date field. The **protected** submission date field should include a formula to calculate the earliest submission date using the payment method, travel begin date and the processing days (determined by Finance).

Auditee Response: *Travel policy will be revised extending the lead time to 30 days eliminating the need for two separate processes for payroll and warrant vouchers. This allows flexibility in Finance to process under either method.*

Develop training and exception reporting.

As Exhibit 4 illustrates, travel regulations are not always followed. Our interviews with Finance found some policies were not enforced. For example, employees with delinquent expense reports were given travel advances. The sample results also indicate violations are rarely addressed by management.

While the policies are available and accessible, they lack clearly defined roles and responsibilities for department approvers. Individuals who approve expense reports are not held accountable for policy violations. 6% of our sampled expense reports were not properly approved by the Department Head (no approval signature on the expense report).

Travel approvers should be well versed in the policies and receive periodic updates of trending issues. Approvers should be someone other than the person traveling and/or preparing the travel reports.

We also identified deficiencies in employee training. Although the new employee information guide includes the travel regulations, the policies are not discussed during new hire training. Finance provided a training class to Police personnel; however, other departments we spoke with had received no training on the regulations or how to complete the various travel forms.

Through training, the employee gains both awareness of policies and an understanding that the regulations are important to the organization. Once employees receive training, diligent oversight by department heads and Finance should ensure policy violations are quickly resolved. Finance currently has no mechanism in place to report policy violations to management.

Recommendation 5:

We recommend Finance develop a mechanism to periodically report *Travel Regulation* policy violations to both Department Administrators and the Mayor's Office.

Auditee Response: *Travel Advance Form and the Travel Expense Report will be revised to include acknowledgement and compliance with travel policy by the traveler and the Administrator or other authorized approver. Finance will expand its current procedures to*

include notification to both the traveler and the Administrator or other authorized approver.

Recommendation 6:

We recommend all employees receive the appropriate level of training as related to their duties.

***Auditee Response:** Finance will work with the HR Department to hold training on an on-going basis. Training will cover responsibilities for travelers, preparers of forms (if different), approvers, and the departments.*

Recommendation 7:

We recommend Finance, with assistance from the Human Resources Department, include travel regulations as part of the New Employee Training program.

***Auditee Response:** Finance will work with the HR Department to hold training on an on-going basis. Training will cover responsibilities for travelers, preparers of forms (if different), approvers, and the departments.*

Promote consistent application of policies.

In general, policies related to documentation required to support travel expenses are found in both the *Travel Regulations and Purchase Card Policy and Procedures*. Our review noted inconsistent application of these policies.

Support documentation attached to various forms of travel expense payments (warrant voucher, travel advance, travel reimbursement) were not consistent among departments. Per our discussions, required support documentation may depend upon whose reviewing the request in Finance.

Recommendation 8:

We recommend Finance update its approval procedures to consistently apply the stated policies. If Finance determines specific documents are required, it should update the policies to reflect the proper information.

***Auditee Response:** Some of the inconsistencies related to the optional Travel Request Form utilized by some departments. We will revise the policy and the form to ensure more consistent documentation by all. Greater emphasis will be placed on consistency in policy applications by the Finance Department.*

Recommendation 9:

We recommend the updated policies be disseminated to all departments and training provided, as necessary.

Auditee Response: We concur.

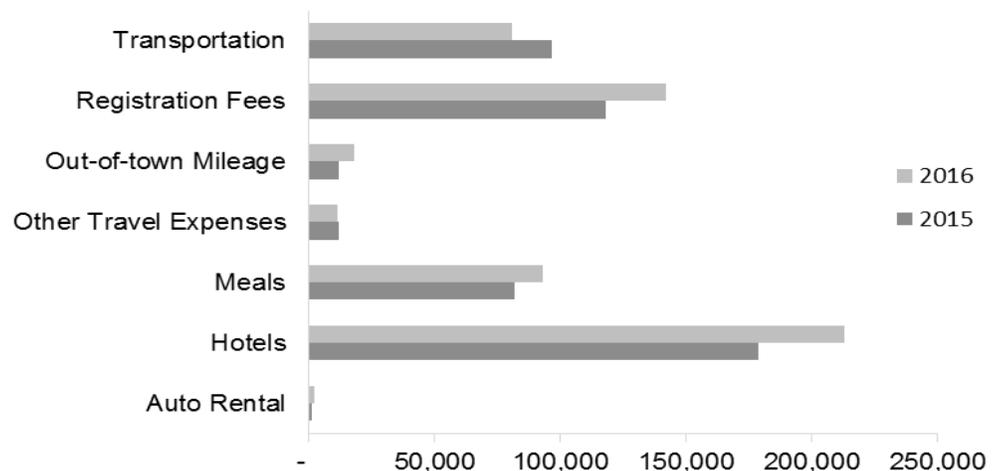
Improve departmental oversight to ensure travel policies are followed.

Our sample indicates 12% of travel related expenses were not documented on an expense report. The main reason cited for not filing the report was the lack of knowledge. Because all expenses were paid with a City purchase card (or third party), the individuals didn't think it was required. We also noted these charges did not include, as support, a copy of the pre-approved travel request. The use of the travel request form by all departments could improve accountability in spending and reporting.

Encourage pre-planning to promote accountability in spending

Hotel expenses account for the largest portion of travel related cost as depicted in Exhibit 5. These travel related expenses accounted for 38% and 36% of total expenses during fiscal years 2016 and 2015, respectively.

Exhibit 5: Total travel expenses, by category



Source: Oracle Financials

The *Travel Regulation* policy states “reimbursement (for lodging) is limited to the lesser of your actual single occupancy rate or the CONUS rate”, excepting conference hotels which are reimbursed at 100% of actual cost. As previously discussed, 10% of hotel expense

reimbursements violated the policy. The unrealized savings in the sample cost taxpayers \$2,281.67. Considering hotel expenditures of \$384,041, we estimate an additional \$38,636 in savings if the policy was followed.

While Finance must give the final approval for payments, department heads are ultimately responsible for the department's expenditures. Using the travel request form to document pre-planning encourages travelers to obtain the best rates for traveling needs. When travelers are required to complete the form, they are more cognizant of anticipated cost.

Mandating preapproval can reduce the opportunity for overspending, regardless if intentional or inadvertently. All deviations from stated policies should include the "exception" form and receive pre-approval prior to booking travel. Only extenuating circumstances should allow for post-approval. In addition, necessary departures from policy will have pre-approval, improving process efficiency.

Each department should have procedures in place to review the accuracy of expense reports and provide proper oversight. Department managers, rather than the Finance Department, should be charged with ensuring their staff follow City policies and report travel as required. The travel request form could serve this purpose by providing a tracking tool for management.

Recommendation 10:

We recommend the travel regulations require all travelers complete the "Travel Request" form and obtain department approval prior to the travel event.

***Auditee Response:** The process for pre-approval of travel is the responsibility of the Department Administrator. The process by which this approval is obtained is at the discretion of the Administrator. Support for Finance purpose is Administrator's signature on request for payment documents, Travel Advance Request Form, and/or expense reports.*

***Auditor Comment:** The process for pre-approval should be uniform across the City. Finance is the centralized source for fiscal policies. We agree each department's Administrator is responsible for ensuring pre-approval occurs. However, the Finance Department can and should provide the defined process. The process should be included as part of the City's formal (written) procedures. See our additional comments following later auditee responses.*

Recommendation 11:

We recommend Finance update the policies to include detail procedures on “how to” properly complete the “Travel Request” form, including a list of recommended support documents (conference brochures, transportation, CONUS rates in effect, etc.) the department should maintain.

***Auditee Response:** Detailed instructions will be included for the revised form – “Travel Advance Request Form”.*

***Auditor Comment:** Providing detail instructions on the Travel Advance Request Form will not address the finding and recommendation. The majority of employees traveling do not require an advance and do not complete this form. See our additional comment following Recommendation 14.*

Recommendation 12:

We recommend including the “Exception Approval” form on the City’s intranet.

***Auditee Response:** We concur. The form has been posted.*

Recommendation 13:

We recommend Finance update the travel regulation policies requiring written pre-approval for exceptions from the travel regulations.

***Auditee Response:** The existing policy states “The Mayor or designee shall have the exclusive authority to grant exemption from any or all parts of the Travel Regulation whenever deemed necessary and appropriate. Such waiver must be in writing and include justification”. Do not think it advisable to require prior approval to allow flexibility for the Mayor in administering this policy.*

***Auditor Comment:** The current policy allows the Mayor to grant exemptions from the Travel Policy. Such exemption would need to be provided prior to a deviation from the policy. Approval after-the-fact is not an approval to deviate, it simply serves to condone a violation. We are also compelled to comment that management override of controls is often a factor in cases of organizational fraud. Therefore, we would recommend such exemptions not be allowed as a matter of policy.*

Recommendation 14:

We recommend the departments use the approved “Travel Request” form as the mechanism to ensure expense reports are completed for all instances of travel.

Auditee Response: *We do not concur with this finding. We will continue to explore ways including mandatory use of P-Card for prepaid travel to track travel related prepaid expenses for which no advance is requested as a trigger for monitoring subsequent filing of expense reports. Departments will continue to have discretion as to their internal policy regarding pre-approval of travel.*

Auditor Comment: *The Internal Control Manual for Local Governmental Entities and Other Audited Entities in Tennessee requires an Internal Control Structure based on five (5) components and seventeen (17) principles. All components and systems should be considered in development of formal policies. However, Component 3 (Control Activities) provides some of the most direct guidance with regard to the inclusion of detailed policies and procedures related to fiscal matters such as travel expenditures.*

We believe the most efficient and effective method to ensure the required level of control over travel expenditures is the provision of standard city-wide policies and procedures. Those procedures should include a process for pre-approval and management review. The internal control structure (policies and procedures) for travel expenditures should not be viewed by the Finance Department any differently than that for cash collections, accounts payable, etc.

If the various departments are going to be allowed to implement their own policies related to approval and management review of travel expenditures, Administration must develop a formal policy assigning that responsibility to the various departments. In addition, Administration must develop a formal policy to monitor the departmental policies and ensure the departmental policies are distributed to all staff (see section 3 of Component 3).

Consider alternative methods to manage the City's travel expense.

The City has a relatively manual process with multiple points of payment and reporting. Travel expenses are prepaid through payroll, warrant vouchers and City purchase cards. Travel expenses are both pre- and post-approved. The process makes it difficult to see the complete picture of an employees' trip.

The process also requires duplicated documents, possibly up to 5 or more times. For instance, conference brochures (which can be several pages) are found attached to the travel advance request (1), the registration payment (2), the airline payment (3), the hotel bill (4) and finally with the final expense report (5).

Locating travel expense reports is cumbersome because they are either filed in Finance or Payroll. Within the Finance Department, the report could be filed with a warrant voucher, collection report, or journal voucher. As part of our audit, we researched alternative methods to managing and tracking employee travel expenses. Possible solutions include:

Oracle-based and other software solution: Oracle Fusion Expenses, a component of Oracle Fusion Financials, is a travel and expense solution that automates the management of travel spending and establishes policy-driven controls for expense reimbursement. It can integrate corporate card transactions, as well as spreadsheet templates, to automate the reporting process.

Prepaid Business Travel Card: For each planned trip, the employee would complete the pre-approval process (such as Travel Request form) to document the estimated cost of their trip. The trip budget can then be loaded onto a prepaid business travel card via electronic funds transfer. Many features are customizable, including type of currency, the card's maximum amount, and the spending categories. The prepaid travel card allows the employer to establish fixed spending limits per travel event, reduces processing cost, and streamlines the administrative process.

Recommendation 15:

We recommend Finance consider alternative methods for managing travel expenses.

Auditee Response: We concur and will explore alternatives including but not limited to use of such as a prepaid card to streamline the process.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers City-wide travel expenditures from July 1, 2014 to June 30, 2016. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Finance Department. Original records as well as copies were used as evidence and verified through physical examination.

To evaluate the efficiency of the travel advance and reimbursement process, we interviewed personnel in the Finance, Payroll, Police, and Transportation departments. We reviewed a sample of travel expenditures to verify travel expense reports were completed and submitted timely with the Finance Department. We also verified travel expenditures complied with stated policies and procedures.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

We conducted this performance audit from July 2016 to October 19, 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: TRAVEL REQUEST FORM

Form 01/31/2008

EXAMPLE

CITY OF CHATTANOOGA TRAVEL REQUEST

DEPARTMENT INTERNAL USE ONLY

NAME: _____ TITLE: _____

DIV: _____ TRAVEL PERIOD: _____ THRU _____

PURPOSE/PUBLIC BENEFIT: _____

DESTINATION (S) -
(CITY, STATE) _____ Charlotte, North Carolina _____

"X" ALL APPLICABLE BLOCKS:

- Over-night Out-of-state Routine Federal or State official visit
 Airplane City vehicle Non-city vehicle Other _____
* Fund, Org, Activity & Location for airline or car expense: A00401
 State travel regulations apply Federal travel regulations apply
 Convention School/Training
 Exception to city travel regulations requested (Details here or attach):

COST OF ANY TUITION/FEE RELATED TO THIS TRAVEL, INCLUDING PRE-PAID EXPENSES:	\$	450.00
TRANSPORTATION COST ESTIMATE - (Airfare & rental car)		180.00
LODGING COST ESTIMATE _____ 3 @ \$ 111.00 (including tax)		333.00
(# of Days) (Daily rate)		
OTHER RELATED TRAVEL EXPENSES ESTIMATE Per diem & cab		228.00
TOTAL ESTIMATE:	\$	1,191.00

APPROVED BY: _____

OFFICE OF: _____

DATE: _____

City of Chattanooga Fraud, Waste, and Abuse Hotline

Internal Audit's Fraud, Waste, and Abuse Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any City facility or department.

Internal Audit contracts with a hotline vendor, The Network, to provide and maintain the reporting system. The third party system allows for anonymous reports. All reports are taken seriously and responded to in a timely manner. Reports to the hotline serve the public interest and assist the Office of Internal Audit in meeting high standards of public accountability.

To make a report, call 1-877-338-4452 or visit our website:

www.chattanooga.gov/internal-audit