A REPORT FROM
THE OFFICE OF INTERNAL AUDIT

PRESENTED TO THE CITY COUNCIL
CITY OF BOISE, IDAHO

AUDIT / TASK: #12-07, Travel / Meals Expenses
AUDIT CLIENT: Cross-Functional
REPORT DATE: February 22, 2013
AUDIT GRADE: Low Satisfactory

REPORT AUTHOR: Steven Rehn CIA, CFSA
APPROVED FOR RELEASE: Steven Rehn CIA, CFSA
AUTHORITY: Boise City Code, 1-09-03
            FY2012 Work Plan
REPORT OF AUDIT ACTIVITIES

Task #12-07, Travel / Meals Expense
Date of Audit:  July 16, 2012

INTRODUCTION
Internal Audit last undertook a review of expenditures related to travel and business-related meals early in Fiscal Year 2005. That project was construed as a follow-up to forensic audit work performed by an external group, Jefferson Wells. The primary objective was to gain assurance that the policies and procedures that were implemented during that time period were in place and functioning. During the ensuing years, the City has followed roughly the same formalized policy and procedures for travel and meals expenses, updating and improving those processes when doing so was deemed to be necessary.

Under current regulations, business travel for the City is supported by the following basic criteria / control measures:

- Travel requires the exercise of good judgment; travel should be undertaken under comfortable, but not extravagant conditions.
- Travel must be pre-authorized by a member of the Departmental management team, with successive levels of authorization required depending on the circumstances. Approval may be required up to the level of City Council.
- Cash advances are routinely made to employees in order to cover the cost of meals and miscellaneous expenses that will be paid “out of pocket.”
- Meals and incidental expenses are paid to employees on a “per diem” basis consistent with IRS regulations. Amounts are adjusted for the value of meals provided by others, and for partial days’ travel.
- Expenses reasonably associated with the travel events, and supportive of City business, are reimbursed.
- Original receipts must be retained and submitted for final reimbursement.
- Final reimbursement reports, and settlement of travel advances, are required within 5 week-days of the employee’s return.

To date, no similar policy or procedural guidance has been implemented for Business Meals expense categories. In answer to our previous review in this area, management pursued the creation and implementation of guidance. However, it apparently never passed the draft / proposal stage. Currently, this activity is documented on a standardized form that is widely accepted and used by staff across the City. The form and the attendant approval processes, when properly completed, are effective in providing a reasonable, though perhaps not ideal, level of structure and control around these expenditures.
Travel and meals expenses continue to comprise a significant category of expenditures for the City. To illustrate, during Fiscal Year 2011 the following estimated levels of expenditure occurred:

- **Travel for Training and Meetings** – $471,300
- **Business Meals Expenses** – $36,200

For purposes of comparison, through the first 51 weeks of Fiscal Year 2012 estimated expenditures reached the following levels:

- **Travel for Training and Meetings** – $572,500
- **Business Meals Expenses** – $36,300

The spending levels noted above represent a 21% year-over-year increase in travel-related expenses. The majority of the increase appears to be attributable to higher levels of spending by four departments (in order from largest increase to smallest): Police; Parks & Recreation; Airport; and, Finance & Administration. Other departments incurred smaller increases; or actually achieved decreases in their overall travel-related spending – Fire, Public Works, and Legal achieved significant decreases in their year-over-year travel expenses.

Meals expenses reflect little change when comparing FY11 to FY12. These expenses are largely comprised of working meals; e.g. Council meals, meals for Fire Department suppression exercises, meal / refreshment costs associated with official functions, etc… to name but a few examples.
REPORT OF AUDIT ACTIVITIES

SCOPE AND METHODOLOGIES
Internal Audit established a scope period for testing that included all of FY11, and the first three fully completed quarters of FY12. Included were expenditures related to travel, travel-related cash advances, and group and business meals. This period was selected for review in order to gauge the current status of the controls and procedures surrounding travel, and business meals expenses. Those measures should ensure that resources are used effectively and efficiently, resources are adequately safeguarded, and activities are consistent with established policy and regulation.

Specific objectives that were established for the audit included the following:

- To ensure that cash advances for travel-related expenses are properly authorized, and are reasonable within the context of the travel event.
- To ensure that Travel Expense Reports are approved, are submitted timely, and contain documented and allowable expenses only.
- To ensure that Business Meals expenses are approved, are properly documented, and are incurred only in those circumstances where it is supportive of official City business.

Internal Audit conducted detailed testing on statistically-determined samples of transactions, interviewed staff, and conducted observations that were deemed to be sufficient to support the findings and recommendations contained within the body of this report.
EVALUATION AND COMMENTS
Based on the work performed and the documentation reviewed, it appears that expenses associated with travel events and meals are supportive of the City’s business. However, in spite of that fact, this area is still deemed to be at a “Low Satisfactory” level of performance.

We did not note any travel, or any associated expenses, that appeared to diverge from the spirit and intent of the City’s approved travel policy and the related regulations. To the contrary; method, duration, and purpose of travel appeared to be reasonable and proper in all cases we reviewed. The results were similar for Business Meals expenses as well – all of the expenditures we reviewed appeared to positively align with City goals and objectives. However, during testing of travel advances and final expense reimbursements we noted what appeared to be either a fairly common misunderstanding of, or a failure to consistently apply the detailed rules associated with the travel regulations. As a result, divergence from policy and regulation was common. A sizeable portion of the payments / reimbursements exhibited minor variances when we re-calculated the final amounts due to or from the employees. Minor over- and under-payments – mostly attributable to per diem payments – that netted to an insignificant amount (less than $20 overall) were the direct result of this condition. We also noted a high percentage of failure relative to satisfying the filing deadlines established for the final travel expense reports.

In order to maintain the integrity of the City’s travel expense plan, and to ensure compliance with IRS regulations, the processes and procedures must be reasonable within the context of the business model; and they must be consistently enforced and observed. Consistency appears to be at issue. Internal Audit believes that additional procedural guidance, and incremental educational efforts will help alleviate the conditions noted.

The following pages contain our detailed observations and recommendations.

(Refer to Appendix A for additional details concerning Internal Audit’s existing grading scale.)
FINDINGS AND RECOMMENDATIONS
Internal Audit’s Findings are detailed below, including any recommendations that were made, and management’s responses to those suggestions.

1. FINDING: Travel Program Compliance
Internal Audit noted a number of transactions that displayed one or more deficiencies when compared to existing travel policy and regulation. A total of 24 travel events occurring over the scope period selected were reviewed, and encompassing all activities from initial advance payments through to the submission of final reimbursement reports (Travel Expense Reports). The types and numbers of findings were:

- **Late Submission of Travel Expense Reports** – Eight instances were noted where the Reports were not submitted within the 5-day timeframe stipulated. **Error Rate = 33%**
  Three instances were noted where the Reports were not dated. We were unable to determine whether they had been submitted timely. **Potential Additional Error Rate for Late Submission = 13%**
- **Per Diem Miscalculated** – Ten instances were noted where the per diem payment to the employee appeared to be incorrect. Payments both short and long were noted. **Error Rate = 42%**
- **Missing Documentation** – Five instances were noted where receipts / documentation were absent that would lend support to certain aspects of the travel event / expenses reimbursed. **Error Rate = 21%**
- **Other Issues** – One instance was noted where separate phone charges incurred by the employee were not reimbursed, though regulation provides for reimbursement in these instances. One instance was noted where a supervisor, and not a member of the division management team approved a Travel Expense Report. Two instances were noted where travel occurred before authorization forms were completed. Finally, one final Travel Expense Report was not approved by management. **Aggregate Error Rate = 21%**

The City’s travel policy and regulations are intended to provide guidance and structure in this area. However, a lack of specificity in some areas, and the failure of department / division staff to understand and enforce all pertinent aspects of the regulations could place the City at risk. IRS rules and regulations are specific - criteria must be in place and must be consistently enforced. If excess per diem payments / reimbursements occur on a regular basis, those excess payment amounts could be viewed as taxable income to the employee. In extreme circumstances, all per diem payments could be declared taxable income – subject to both income- and payroll taxes.
REPORT OF AUDIT ACTIVITIES

RECOMMENDATION:
Internal Audit recommends that consideration be given to enhancing the existing travel regulations and the measures in place to ensure compliance. Specific items to be considered include:

- **Training** – Department / Division staff who are responsible for processing travel-related expenses should be well versed in the policy and regulations. An annual certification process might enhance this effort.
- **Timeframes** – IRS guidance relative to travel events deems 60 days to be timely reporting for expense reimbursement. Management may want to consider whether the current 5-day time frame is overly-restrictive.
- **Advances** – The same IRS guidance stipulates advances should not be paid more than 30 days before an anticipated travel event. Current regulations contain no guidance in this area. (We did tangentially note one instance recently where an advance was processed nearly 120 days prior to the anticipated travel event – well outside the IRS’s guidance.)
- **Per Diem** – The City’s current regulations provide limited guidance with respect to certain critical requirements in this area. For instance:

  IRS and GSA per diem criteria stipulate the per diem rate to be used is that of the “TDY” (temporary duty) location, unless there is a stop-over for sleep or rest. Two of the per diem issues we noted involved employees using per diem rates seemingly unrelated to the TDY location(s). Excess per diem payments resulted from this misapplication of the rules.

  Additional guidance in the area of pro-rating per diem should also be considered. Partial days’ travel was not always pro-rated properly. In one case the employee was paid per diem at the 75% level for first and last day of travel – a requirement applicable only to certain Federal employees. City rules require a pro-rated payment for partial days’ travel – adjustments are for meals provided, or meal periods occurring outside of scheduled travel times.

  We also noted instances where employees were not reimbursed for incidental expense in their per diem when partial days’ travel occurred. Federal per diem rules define “incidental expenses” as relating to tips and gratuities provided to porters, bellhops, etc… Since partial-day travel likely still involves these types of expenses, depriving employees of these incremental funds may place an undue burden on them when traveling on behalf of the City. Federal rules also stipulate that only the cost of meals provided will be deducted from per diem rates where those are provided – incidental expenses are not normally deducted from per diem rates.
Pursuing corrective actions related to the issues above will help ensure that employee travel events are handled in a uniform and consistent fashion, that risk is mitigated, and that resources are deployed efficiently and effectively.

**MANAGEMENT RESPONSES:**

(Note: Internal Audit communicated the issues noted in this Finding to the individual departments involved. We left follow-up and correction of individual reimbursement issues to department discretion. Where department / division records suggested something more than just an isolated incident, we requested a narrative response outlining corrective actions to be taken. Given their central role in the creation and administration of accounting-related rules, we also sought input and corrective action from the Department of Finance & Administration. Management responses received appear below.)

**Fire / Police Administrative Division:**
The Fire Department has implemented several actions for timely submittal of travel expense reports prior to these audit findings, they are: 1) a travel checklist is included in every travel packet which states the travel expense report due date and the required receipts amongst other travel information; 2) a travel log owned by the department travel arranger, by individual with travel expense report due dates; and, 3) email notices to employees upon return from travel requesting travel expense report. These actions have improved the timeliness of report submittal.

Travel arranger will add more diligence to the expense report review process to ensure employees are paid for phone calls; required backup is included in report and that all reports are dated appropriately (date stamp when submitted to Finance).

The Police Department has reinforced administrative procedures internally to enhance staff understanding of the Travel Regulation; and has also implemented a new travel form that further automates the calculation of per diem payments. Also, administrative staff will direct additional efforts toward following up on delinquent submissions of Expense Reports, and will stress to traveling employees the need to observe established deadlines. The recent implementation of the travel log, which is used to track trips for coordination between AP, AR, and training, will help facilitate tracking of the timeliness of the travel expense report.

**Housing & Community Development:** The Division’s Accounting Supervisor will be reviewing all travel requests and expense forms prior to submission to City Accounting. HCD has implemented a tracking process to keep track of travel to assure expense forms are submitted timely.
**REPORT OF AUDIT ACTIVITIES**

*Mayor’s Office:* Staff reviewed the three issues noted during the audit.

One (involving mileage) was validated; though additional detail will be included in future Travel Expense Reports in order to more fully support mileage claimed.

A second (involving late submission of the Travel Expense Report) was validated as well; the report was submitted within the timeframe stipulated, though final approval was delayed due to scheduling and travel conflicts.

The third involved a discrepancy in the payment of per-diem. The $6.00 overage will be reimbursed to the City.

*Parks & Recreation:* Management communicated the following to all Department personnel:

“Please note that the City’s travel regulation … requires ‘a completed travel expense voucher shall be submitted to the Accounting Office within five (5) days of return from the trip.’ Observance of those measures will help ensure an efficient and effective use of resources in this particular category of expenditures.

Currently *(designated employee)* is managing all travel related scheduling and reporting for Parks. Please help … by being timely in your submission of receipts and meeting … immediately after your return from travel.”

*Finance & Administration:* Management elected to review the issues noted in the audit, and to provide additional guidance to City personnel via the creation and dissemination of an interpretive memorandum. The memo provides specific, detailed instructions and examples that illustrate how City travel policy is to be applied. The memorandum further indicates that a comprehensive review and analysis of the policy is anticipated in the not-too-distant future. *(see Appendix B)*

*(Auditor Note: Employee name and contact information was removed from the management responses above where doing so was not deemed to be detrimental to the quality / completeness of the response.)*
2. **FINDING: Business Meals Documentation**  
While performing detailed tests on a sample of 43 individual meal purchases, Internal Audit noted two transactions that displayed deficiencies.

<table>
<thead>
<tr>
<th>Transaction Owner:</th>
<th>Mayor’s Office</th>
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<tbody>
<tr>
<td><strong>Issue:</strong></td>
<td>Payment to Vendor included $7.85 of sales tax.</td>
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<table>
<thead>
<tr>
<th>Transaction Owner:</th>
<th>Information Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue:</strong></td>
<td>Purchase documentation did not include an itemization of the purchase.</td>
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</tbody>
</table>

**RECOMMENDATION:**  
Internal Audit recommends that additional attention be placed on the review and approval of meals-related expenditures. Doing so will help ensure an efficient and effective use of resources in this particular category of expenditures.

**MANAGEMENT RESPONSES:**  
*(Note: Internal Audit communicated the issues noted in this Finding to the individual departments involved. We requested a narrative response outlining corrective actions to be taken in response. Those appear below.)*

**Mayor’s Office:** This particular issue is one that occurs only rarely. Staff will continue to communicate the City’s tax-exempt status to vendors in advance of purchases. Staff will also continue to review transactions after they are complete, placing additional emphasis on compliance with this rule.

**Information Technology:** Management communicated with all affected employees, and reinforced the need to obtain itemized receipts for all meal purchases.
INTERNAL AUDIT UTILIZES “OTHER AREAS OF CONCERN” TO COMMENT ON ISSUES NOTED DURING A PROJECT THAT MAY, OR MAY NOT INVOLVE THE DEPARTMENT OR FUNCTION BEING AUDITED, BUT THAT APPEAR TO DESERVE MANAGEMENT ATTENTION AT SOME LEVEL. ONE SUCH COMMENT WAS GENERATED DURING OUR REVIEW OF TRAVEL AND BUSINESS MEALS EXPENSES.

BUSINESS MEALS REGULATION
OVER THE PAST SEVERAL YEARS, THE CITY’S MANAGEMENT TEAM AND STAFF HAVE COME TO ACCEPT A PROCESS THAT INCORPORATES A GENERAL UNDERSTANDING OF WHAT TYPES OF EXPENDITURES ARE ALLOWABLE AS BUSINESS MEALS, AS WELL AS HOW THOSE EXPENDITURES SHOULD BE DOCUMENTED. A STANDARDIZED FORM HAS BEEN CREATED AND MADE AVAILABLE TO ALL CITY STAFF. THAT FORM APPEARS TO BE WIDELY USED. HOWEVER, NO FORMAL POLICY HAS BEEN FINALIZED AND ADOPTED; AND NO DETAILED REGULATIONS CURRENTLY EXIST TO PROVIDE NEEDED STRUCTURE AND CONTROL AROUND THIS CATEGORY OF SPENDING.

BUSINESS-RELATED MEALS EXPENSE HAS, TOO FREQUENTLY, BEEN A COST CATEGORY SUSCEPTIBLE TO WASTEFUL SPENDING AND / OR ABUSE ACROSS ALL SECTORS OF THE ECONOMY. FAILURE TO COMMUNICATE WHAT IS DEEMED TO BE ACCEPTABLE PRACTICE IN THIS AREA INCREASES THE RISK THAT WASTEFUL OR ABUSIVE SPENDING COULD OCCUR WITHIN THE CITY OF BOISE AT SOME POINT IN THE FUTURE. GIVEN THAT, INTERNAL AUDIT RECOMMENDS THAT MANAGEMENT CONSIDER PURSUING THE IMPLEMENTATION OF FORMAL POLICIES AND REGULATIONS THAT WILL BETTER DEFINE WHAT ALLOWABLE PRACTICE IS, AND THE DOCUMENTATION STANDARDS THAT SHOULD APPLY.
CONCLUSION
Clear, concise, comprehensive, and effectively communicated guidance serves as a strong control measure in any environment; it is no different relative to travel-related expenses and business meals. Pursuing and implementing the recommendations contained within this report will help ensure that wasteful spending in this area continues to be averted going forward. Associated benefits also available include a fair and consistent administration of the program, and enhanced compliance with IRS requirements – especially as those requirements relate to reimbursed travel and the payment of per diem expenses.

MANAGEMENT PARTICIPANTS
Mollie Holt, Financial Services Division Manager / Finance & Administration
Jim McMahon, Controller / Finance & Administration
Anne Wescott, Administrative Services Division Manager / Boise Fire – Boise Police Departments
Kim Brown, Administrative Services Manager / Boise Fire Department

DEPARTMENT CONTACTS
Mona Bryant, Sr. Accounting Supervisor / Parks & Recreation Department
Julie Bryson, Sr. Accounting Supervisor / Housing & Community Development
Tracy Hall, Administrative Assistant / Mayor’s Office
Lori Hopkins, Administrative Supervisor / Information Technology
APPENDIX “A”

Evaluation and Grading of Audits
Each audit will be evaluated or graded, and will receive one of the five following ratings. Grades will be assigned based on the perceived “best fit.” Thus, not all attributes associated with an assigned grade may be present within a given Department or Division.

- **High Satisfactory** – No significant weaknesses or deficiencies were noted during the audit. If any issues were noted, they were clearly insignificant or inconsequential. The audited area displays a high degree of control and management oversight is effective.

- **Satisfactory** – Reportable issues may exist within the audited area, but they are not deemed to be representative of pattern or practice within the area. Issues are typically of an isolated nature. Overall, systems of internal control are effective, and management oversight is adequate and supportive of the accomplishment of goals and objectives.

- **Low Satisfactory** – Reportable issues exist within the audited area, and are encountered frequently enough to lose the appearance of “isolated.” Systems of internal control appear to be marginally adequate at best. Management oversight is not always effective to ensure the quality of operations.

- **Needs Improvement** – Weaknesses or deficiencies are encountered on a relatively frequent basis within the audited entity or function. Issues noted, and their frequency, are suggestive of a pattern or practice of inadequate oversight. Internal control mechanisms may not be universally in place, implemented, or actively observed. Management oversight is weak, or is not always effective.

- **Unsatisfactory** – Material or significant deficiencies are noted within the operations under review. Issues may pose risks that are either mission-critical or mission-fatal. Management has failed to implement appropriate internal controls. Management oversight is ineffective, absent, or willfully avoided.
Memorandum

To: All Departmental Accounting Personnel  
CC: Mollie Holt  
From: Jim McMahon, Boise City Controller  
Date: 11/13/12  
Re: Interpreting the City’s Travel Regulation Policy

During a recent internal audit encompassing travel and business meals expenditures, it has come to our attention that certain areas within the City’s Travel Policy have been inconsistently applied across departments during the FY11 to FY12 period. The areas of inconsistent application involved calculated per diem amounts due employees, decisions on which business meals to include or exclude while traveling, temporary duty locations, and travel form submission deadlines and approvals.

In the near future, it is the goal of DFA-Accounting to conduct a review of current City policy in this area to ensure proper alignment of the City’s new Enterprise Resource Planning (Lawson) application and associated new and existing business processes. Maintaining a robust internal control environment over expenditures and efficient operational throughput would be the primary objectives of any analysis in this area. Until that project is completed, I would like to take this opportunity to provide a few interpretative guidelines in certain areas where inconsistent policy application has been detected.

- Travel Location Per Diem Amounts: Daily per diem amounts should be based upon the rates associated with an employee’s final destination or “temporary duty” location. As an example, if an employee is enroute to Dallas, Texas for a conference with a three (3) hour layover in Salt Lake City, Utah; the daily per diem amounts should be based upon the employee’s temporary duty location in Dallas, Texas.

The Per Diem Rate Schedules are contained on the City’s internal website. These schedules come straight from the Federal General Services Administration website. If a destination city is not listed on the Schedule, the employee is to use the rate that is effective for the county in which that city is geographically located.
If both the city and county are not contained in the Per Diem Rate Schedule, the employee is to use the Standard CONUS rate listed at the top row of that Schedule.

- **Calculated Daily Per Diem Amounts** Employees should always exclude from their daily per diem calculation, meals which occurred outside their initial departure and final arrival time upon return.

As an example, if an employee departs from Boise at 10:00 A.M. MST; that employee would have to subtract the breakfast meal cost from their per diem amount claimed for that day. Similarly, if an employee finishes their business travel by arriving back into Boise at 4:00 P.M. MST; that employee would have to subtract the cost of the dinner meal from their per diem amount for that day. An employee who begins their business travel at 7:00 P.M. MST would not be entitled to a business dinner in their per diem daily total. However, the employee would be entitled to the $5 incidental for that day.

Employees should *always* subtract from the daily per diem amount, any structured meals provided during their travel event. This requirement does not include continental breakfasts (coffee, muffins, bagels, fruit) that are provided free of charge.

Departments should not apply percentage discounts (or any other pro-rata plan not consistent with City policy) to calculate daily per diem amounts. This is a practice observed only in the Federal employment sector. Some Travel Expense Forms that were examined applied a seventy-five percent (75%) factor to an employee’s daily per diem rate, erroneously.

- **Daily Incidentals** Once again, employees are *always* allowed the incidental amount (currently $5/day) for each day in which a business travel event occurs. By definition, daily incidentals are considered to be tips / gratuities provided to porters, bellhops, valets, etc…, and are reasonably expected to occur regardless of partial-day or full-day travel events.)

- **Miscellaneous Expenses** Employees are allowed to claim reimbursement for paid phone calls and taxi/transit fares incurred during their travel event. These expenses are not covered by the Daily Incidentals amount.

- **Timely Travel Expense Voucher Submission and Approvals.** Current City policy in this area mandates that the Travel Expense Voucher and associated receipts be submitted to the City’s Accounting Office within five (5) weekdays after an employee returns from a business travel trip. Until this policy can be revisited, employees are required to abide by the established policy criteria in this area.
Travel Expense Vouchers should always be approved by a member of the City’s departmental management team.

- **Timing Employee Travel Advances** Although current City policy is silent in this area, Internal Revenue Service guidance stipulates that employee travel advances should not be paid out more than 30 days before the anticipated travel event occurs.

I hope you find these interpretations of existing City Travel Policy useful. Please contact either ….. or myself ….. if you have any questions relative to the City’s Travel Policy or this memorandum.

Jim McMahon
Boise City Controller

**(Auditor Note:** Employee name and contact information was removed from the memorandum above where doing so was not deemed to be detrimental to the quality/completeness of management’s response.)