

Office of the City Auditor

**Report to the City Council
City of San José**

**AUDIT OF EMPLOYEE
TRAVEL EXPENSES**

**Report 17-08
November 2017**

November 8, 2017

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Audit of Employee Travel Expenses

City of San José employees travel for a variety of work-related reasons. In general, Police Department employees travel more than other City employees. Employees in this Department traveled for various reasons including: investigations, conducting background checks, training, and prisoner extraditions. Employees from other departments generally traveled for conferences and trainings. The objective of our audit was to evaluate the effectiveness of controls for reimbursement for travel and compliance with City policies and procedures.

Finding 1: The Travel Approval Process Appears to Meet Its Intended Purpose but Some Opportunities for Improvement Exist. The Employee Travel Policy guides employee travel. It places responsibility for approval of travel requests and reimbursements with the traveler, direct supervisor, department travel coordinator, approving official, and the Finance Department. Travel coordinators appear to effectively ensure that employee travel reimbursements comply with the City's travel policy; however, there were some exceptions related to per diem reimbursements and unapproved charges for flight changes or upgrades. The Finance Department plans to clarify the City's per diem policy and will determine if the upgrades were allowable under the policy.

Submitting reimbursements in a timely manner is important for the City's record keeping purposes. Additionally, the Internal Revenue Service (IRS) requires that expense reports be filed within 60 days after the end of the employees' travel, otherwise the reimbursement may be considered taxable income. We found that some reimbursement requests were submitted late and recommend enforcing the City's requirement for submitting reimbursement requests in a timely manner.

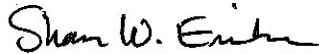
City staff spend time reviewing paper travel documents and Finance stores reimbursement requests in file cabinets. Our discussions with another jurisdiction and a Silicon Valley company confirm that using an electronic system can greatly increase the efficiency of processing travel reimbursements. Our previous 2013 audit of employee travel noted that the broader use of email and implementing an electronic travel reimbursement system would help expedite the travel approval process. That recommendation is still pending.

Finding 2: Gas Cards Lacked Necessary Controls. Our review revealed Chevron gas cards were being used by two departments. However, there was no policy guiding their use, no tracking of the cards or the staff who were using these cards, no check-out logs for the vast majority of the cards, and no

verification of purchases for appropriateness. The City has canceled the majority of cards and is in the process of revamping the program.

The report includes four recommendations to strengthen oversight of Citywide travel and use of gas cards. We plan to present this report at the November 16, 2017 meeting of the Public Safety, Finance, and Strategic Support (PSFSS) Committee. We would like to thank the Finance Department, the Police Department, the City Attorney's Office, and the Office of Employee Relations for their assistance during the audit process. The Administration has reviewed this report and its response is shown on the yellow pages.

Respectfully submitted,



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This report is also available online at www.sanjoseca.gov/audits.

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Introduction

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability, and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services.

In accordance with the City Auditor's Fiscal Year (FY) 2016-17 Audit Work Plan, we have completed an audit of Employee Travel Expenditures. The purpose of this audit was to evaluate the effectiveness of controls for reimbursement for travel and compliance with City policies and procedures.

We conducted this performance audit 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. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the management and staff from the Finance Department, the Office of Employee Relations, Public Works (PW), Department of Transportation (DOT), Parks, Recreation and Neighborhood Services (PRNS), the San José Police Department (SJPD), the Office of Employee Relations, and the City Attorney's Office for their time, information, insight, and cooperation during the audit process.

Background

City of San José employees travel for a variety of work-related reasons. These include:

- Conferences for professional development and networking;
- Trainings for job-relevant knowledge and skills;
- Meetings as authorized City representatives; and,
- Criminal investigations and extraditions.

The Employee Travel Policy

City Policy 1.8.2, “Employee Travel” (Employee Travel Policy),¹ last updated in March 2017, is a 14-page document that provides “guidelines for authorization of travel; and reimbursement and payment of travel expenses.”² This policy limits travel to times in “which the City derives a specific benefit through attendance by the traveler” and requires that expenses associated with travel “are reasonable and necessary for the conduct of City business.”

The Employee Travel Policy is prescriptive and outlines travel activity eligible for reimbursement. It also provides guidelines for requesting authorization for travel, reconciling receipts, and accounting for travel activity. The policy categorizes travel as “in-state,” “out-of-state,” and “international” travel. It defines these categories as follows:

- **In-state** applies when travel occurs within California and costs exceed \$500 (including registration and all related travel costs);
- **Out-of-state** travel is outside of the State of California, but within the continental United States;
- **International** travel occurs outside of the contiguous continental United States and includes travel to Hawaii and Alaska.

The City uses U.S. General Services Administration rates for travel within the continental United States (CONUS) and State Department rates for international travel (OCONUS) to determine not-to-exceed amounts for lodging and meal/incidentals expenses (per diem).³ The policy permits cash advances for travel under certain circumstances, generally only for per diem. The intent of the policy is to encourage travelers to use every effort to contain costs. Additionally, it requires the use of the Mineta San José International Airport.⁴

¹ The Employee Travel Policy applies to full-time and part-time active employees, excluding the Mayor, Councilmembers, Council staff, Council Appointees, and members of the City’s Planning Commission, Civil Service Commission, Elections Commission, and Police Officers assigned to the Mayor’s Security Detail when traveling in that capacity.

² Additional policies that apply to employee travel are found in the City Policy Manual (CPM): Code of Ethics (CPM 1.2.1); City Gift Policy (CPM 1.2.2); Policy for Accepting Gifts to the City (CPM 1.2.6); Private Vehicle Mileage Reimbursement (CPM 1.8.3); Vehicle Allowance Policy (CPM 1.8.4); Procurement Card Policy (CPM 5.1.2); and, Food and Beverage Expenditure Policy (CPM 5.1.5).

³ A traveler can opt out of receiving reimbursement for per diem expenses and choose to receive reimbursement for actual expenses less than the per diem rate.

⁴ The policy includes three exceptions where it is permissible to use an airport besides Mineta San José Airport: except to the destinations where flights are unavailable or traveler is required to make more than one stop or plane change; total trip expense using the San José Airport is \$250 more expensive than other local options; or there is more than a 2.5-hour difference in flight travel time.

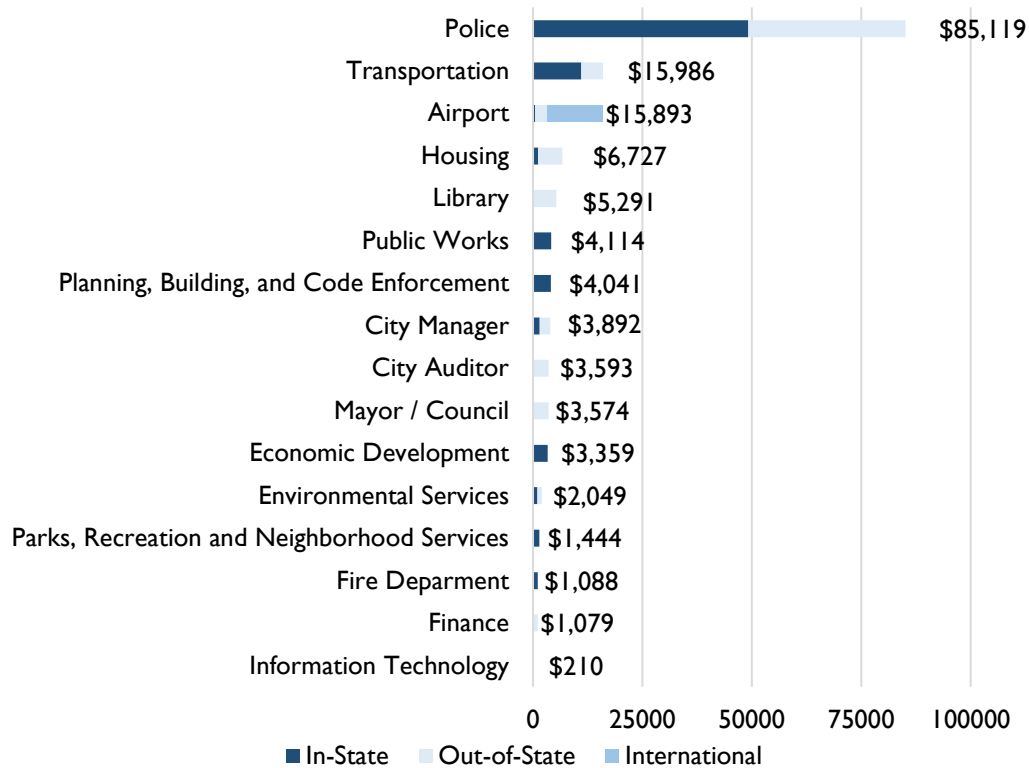
Much of the Travel Reimbursed in June 2017 Was in the Police Department

In general, employees in the Police Department traveled more than other City employees, (audit methodology described later in the *Audit Scope and Methodology* section of this report). Employees in that Department traveled for various reasons including:

- Investigations,
- Conducting background checks,
- Training,
- Prisoner extraditions,
- Police memorials, and
- Board meetings.

Employees citywide generally traveled for conferences and trainings. Exhibit I shows the breakdown of reimbursements requested by City employees from various departments, in June 2017.

Exhibit I: Employee Travel Expenditures Reimbursed in June 2017, Pay Periods 13 and 14 by Department and Type



Source: Travel reimbursement forms processed in pay periods 13 and 14 in June 2017

Most Employee Travel Was Within California

In June 2017, there were 141 City employee travel reimbursement requests processed for travel.⁵ As shown in Exhibit 1, these travel reimbursements totaled \$157,000.

Most employees traveled within the State of California. Employees also traveled to states, such as, Massachusetts, Georgia, and New York.⁶ Additionally, two of the requests were for international travel to China. See Exhibit 2 for travel in the continental United States.

Exhibit 2: Travel within the Continental United States Reimbursed in June 2017⁷



Source: Auditor created using travel reimbursement forms processed in pay periods 13 and 14 in June 2017
* Travel to China does not appear on the map.

Recent, Related Audits by the City Auditor⁸

This is the third in a series of audits that this Office has conducted on travel reimbursements in the last ten years: [Audit of Employee Travel Expenses \(2013\)](#), and [An Audit of Retirement Services Travel Expenses \(2008\)](#).⁹ Other related

⁵ Note, some departments did not have employees requesting travel reimbursement during the pay periods 13 and 14.

⁶ There were no travel reimbursement forms processed for travel to Alaska or Hawaii during the time period sampled.

⁷ Darker colors indicate a greater number of trips to that destination.

⁸ www.sanjoseca.gov/audits

⁹ The Administration and Retirement Services boards and staff had implemented all 23 of the recommendation arising from the *Audit of Retirement Services Travel Expenses*. While some of those recommendations were specific to the pension boards, the audit affected travel expense authorizations and controls Citywide. Most notably, the audit led to amendments to the Employee Travel Policy, further restricted travel expenses, and required greater justification for certain expenses.

audits include: [City Procurement Cards: Better Oversight and Streamlined Processes Would Improve Protection of Public Resources \(2014\)](#), and [City Procurement Cards: Policies Can Be Improved \(2010\)](#).

Our 2013 *Audit of Employee Travel* highlighted travel that was inconsistent with City policy and recommended possible changes to the travel request form and improvements to the Employee Travel Policy. The Administration has implemented 11 of the 13 recommendations from that audit. Of the two pending recommendations, one recommendation (to require attaching travel statements, approved by the travel-coordinator, as supporting documentation for p-card expenditures) requires a change to the City's Procurement Card Policy and remains under review. The second pending recommendation relates to exploring the use of an electronic travel authorization system. The Finance Department has not yet made significant progress towards implementing this recommendation. This issue is discussed further in Finding I of this report.

Audit Objective, Scope, and Methodology

The objective of our audit was to evaluate employee travel expenses for the effectiveness of controls for reimbursement and compliance with City policies and procedures. To understand the relevant management controls in place, we performed the following to achieve our audit objective:

- Reviewed the City's Employee Travel Policy, section 1.8.2 in the City Policy Manual (CPM). We also reviewed other City policies and procedures pertaining to City travel, including:
 - Code of Ethics (CPM 1.2.1),
 - The City Gift Policy (CPM 1.2.2),
 - Policy for Accepting Gifts to the City (CPM 1.2.6),
 - Private Vehicle Mileage Reimbursement (CPM 1.8.3),
 - Vehicle Allowance Policy (CPM 1.8.4),
 - Procurement Card Policy (CPM 5.1.2), and
 - Food and Beverage Expenditure Policy (CPM 5.1.5).
- Analyzed and summarized all expenditures coded as travel in the City's Financial Management System (FMS) from FY 2013-14 to FY 2016-17.
- Reviewed previous audits conducted by this Office and status of outstanding recommendations.
- Reviewed audits pertaining to employee travel and reimbursements from other jurisdictions, including: City of Atlanta, City of Boise, City of Charlotte, City of Modesto, and Maricopa County.

Employee Travel Expenses

- Interviewed staff from the Finance Department and individual department travel coordinators to clarify exceptions observed and to understand their approval process.
- Interviewed the City of Atlanta and a Silicon Valley private sector company to determine the usefulness and potential cost-savings from using an electronic travel management system.

To test compliance, we reviewed all 141 travel reimbursement requests submitted Citywide in June 2017 (specifically FY 2016-17 pay periods 13 and 14). We selected these pay periods for review because there was a relatively large volume of reimbursements processed.¹⁰ Most of the reimbursement requests during that month were from the Police Department. Specifically, 78 travel forms were from the Police Department, 17 were from Department of Transportation, and the remaining departments ranged from one to six submissions each.¹¹ We reviewed reimbursement requests to determine the following:

1. Travel was appropriately pre-authorized and complied with the City's ban on travel to certain locations;¹²
2. Travel reimbursements were submitted in a timely manner;
3. Cash advances were appropriate and reconciled accurately;
4. Per diem rates were accurate and appropriately reimbursed;
5. Companion costs were not reimbursed;
6. Itemized receipts, invoices, and other documentation were submitted along with the Travel Request Form and the Travel Reimbursement Form;
7. Group expenditures had appropriate documentation;
8. City restrictions on air travel were followed;
9. Travel agents and other unallowable fees were not reimbursed;
10. Cap of 150% of the applicable CONUS rate for lodging was appropriately applied;
11. Mileage was requested by employees receiving car/vehicle allowance; and,

¹⁰ According to Finance, June tends to be the month with the largest number of training and travel reimbursement requests, in preparation for the close of the fiscal year on June 30.

¹¹ The other departments and offices in our review included: Airport, Environmental Services, Fire, PRNS, Housing, Library, Public Works, Office of Economic Development, Finance, Information Technology, City Auditor's Office, City Manager's Office, City Council, and Planning, Building and Code Enforcement.

¹² During the course of our audit, we brought the City's ban on travel to Mississippi and North Carolina to the Finance Department's attention. The Department then posted the Council approved ban on the Finance Department website and informed travel coordinators of the ban in September 2017.

12. Alcoholic beverages and/or in-room entertainment were not reimbursed.

We also used the City's Open Data Portal¹³ to review p-card transactions referenced in the sampled employee travel reimbursement documents.

¹³ <https://data.sanjoseca.gov/home>

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Finding I The Travel Approval Process Appears to Meet Its Intended Purpose but Some Opportunities for Improvement Exist

Summary

The Employee Travel Policy places responsibility for approval of travel requests and reimbursements with the traveler, direct supervisor, department travel coordinator, approving official, and the Finance Department. Generally, travel coordinators appeared to effectively ensure that employee travel reimbursements comply with the Employee Travel Policy. However, there were some exceptions related to per diem reimbursements and timely submission of documents. Additionally, the City paid for a few unapproved expenses such as a last minute flight change and a seat upgrade.

Based on our discussion with the City of Atlanta and a Silicon Valley private company, we found that using an electronic system can increase the efficiency of processing travel reimbursements. City staff spend a significant amount of time and space reviewing and storing paper travel forms. In our opinion, the Finance Department should revisit our prior audit recommendation to review and implement an electronic travel reimbursement system.

Departments Are Responsible for Approving and Administering Travel

Direct supervisors, department travel coordinators, and departmental approving officials review and approve employee travel.¹⁴ Employee travel is documented on a per-trip basis using the City's Reimbursement of Travel form, shown in Appendix A.

The Reimbursement of Travel form is the primary City document for coordinating information by employee, per trip. Although it can be filled out electronically, it must be printed for signatures. The City requires that each traveler submit a Travel Request form prior to traveling, and submit their Travel Reimbursement form and supporting documentation. For example, a copy of the boarding pass is required when requesting reimbursement for travel expenses post-trip.¹⁵

It is the traveler's responsibility to provide sufficient documentation, described in the travel policy, to receive reimbursement. Employees attach hard-copy boarding

¹⁴ All five individuals are required to sign the Reimbursement of Travel form for each trip.

¹⁵ Boarding passes are only required if the employee purchased the ticket using their own credit card. Ticket purchases using the City's p-card do not require a boarding pass.

passes, flight reservations, event agendas, a filled out Per Diem Expense Worksheet, and other documentation to support trip expenses and facilitate calculation of reimbursements.

After being reviewed by the travel coordinator and approving official in each department, the travel reimbursement form is then sent to the Finance Department for review.

Finance also has an important role in reviewing all employee travel reimbursement forms and dispersing or withholding funds from the traveler. Although Finance does not participate directly in pre-trip authorization and post-trip approval of all travel activity, Finance staff review travel forms to ensure that they are complete, accurate, and in accordance with the Employee Travel Policy.

After the reimbursement form has been approved, the City processes reimbursements through payroll. This appears to be an efficient way to process payments. Reimbursements for travel expenses show up directly on the employee's paycheck as opposed to receiving a separate check. Conversely, payroll can deduct pay if the City overpaid an employee and is owed money back.¹⁶

Travel Coordinators Provide a Thorough and Necessary Review

As described above, the Employee Travel Policy places responsibility for approval of travel requests and reimbursements with the traveler, direct supervisor, department travel coordinator, approving official, and the Finance Department. In general, it appears that the bulk of the review is done by the designated department travel coordinator and the Finance Department. We observed some travel documents included hand written notes from the Finance Department as well as attached email exchanges between travel coordinators and travelers demonstrating a thorough review.

The role of the travel coordinator is particularly important for City staff who may not travel regularly for work and may be unfamiliar with the Employee Travel Policy. Travel coordinators appear to be diligent in their role and follow-up with employees for additional documentation as needed. Some travel coordinators also work to educate travelers about the City policy and how to submit requests and reimbursement forms.

The travel coordinator for the Police Department, for example, frequently corrected employee per diem requests, checked CONUS rates, emailed employees for explanations on deviations, and questioned additional fees. The Police Department developed its own supplemental process to ensure compliance with the Employee Travel Policy. The Fiscal Unit in the Police Department

¹⁶ For example, three employees in our sample had received cash advances for per diem. On the travel reimbursement sheet, it was noted how much the employee owed the City (two owed \$36 and another owed \$16) so that payroll could garnish that amount from the employee's paycheck.

requires all travel to be pre-approved. The travel coordinator (housed within the Fiscal Unit) sends the employee a confirmation email of documents required for reimbursement (see Appendix B). In addition to the travel coordinator, a senior analyst in the Police Fiscal Unit reviews the documents for completeness and initials the reimbursement form prior to sending it to the Office of the Chief for Departmental approval. Once approved by on the department level, the documents are sent to Finance for review and payment.

Similarly, the travel coordinator for the Department of Transportation (DOT) developed a supplemental process to manage department travel requests—an online travel request form that DOT employees can fill out on the departmental intranet page. This form helps the travel coordinator understand the reason for the request and to help provide the necessary support to the employee with booking travel.

Additional Cost of Flights

We noted two discrepancies in approvals for airfare. The Employee Travel Policy states that “... travelers shall fly coach class on the lowest cost flight(s) available. Upgrades of any kind shall not be reimbursed, including early boarding.” Nonetheless, our sample included a payment of an additional \$160 for an exit row seat on a flight to New York. The employee explained that because of their size and previous back injuries, they could not sit on a middle seat for a six-hour flight. This upgrade was not a pre-approved expense, but it was noted after the employee purchased the flight.¹⁷

In another case, an employee used a City p-card to change their flight time home from Southern California, moving it up by two hours because the project ended sooner than expected. This flight change cost an additional \$108. Although a brief explanation was provided, the cost was not preapproved and did not appear to be compliant with the City’s policy disallowing reimbursement of upgrades.

We forwarded these cases to the Office of Employee Relations for review and final determination as to whether this was an appropriate use of City funds.

Some Travel Policy Sections Need Clarification

While travel coordinators appear to correct many errors and misstatements, we found a few instances where mistakes were made either due to ambiguity in the travel policy or coordinator oversight. These are described below.

¹⁷ The travel coordinator noted that it is typically required in cases like this one for the employee to submit a memo explaining the reason they are asking for an exception to the City policy and for the additional expense. The memo must be signed by an approving official prior to spending the money. In this instance, there was no memo attached.

Per Diem Policy

To streamline the City's travel reimbursement review process, the City no longer requires receipts to determine meal allowances and encourages employees to request a per diem reimbursement.¹⁸ A flat per diem rate is given based on destination of travel and applicable rates.¹⁹ The per diem allowance is broken out by meal (breakfast, lunch, dinner) with a small amount allocated for incidentals. Per diem allowances are calculated using the Per Diem Expense Worksheet that is included as an attachment to the Travel Request and Reimbursement of Travel forms.²⁰

Event brochures and agendas are required to accompany the travel request to determine what meals are provided as part of the cost of the event. If meals are provided at the event, the value of per diem for that meal is deducted from the overall per diem calculation for that day. The policy also limits per diem reimbursement on the first and last day of travel.

According to Finance staff, checking per diem numbers can be the most time intensive part of the review process—even though it is often the smallest expense.²¹ However, Finance staff also indicated that the current process was much simpler than when the City used to require itemized receipts for meals and incidentals.

Our review revealed several areas of confusion regarding implementation of per diem in the City's policy:

- *Per Diem Reimbursement for Travel Days When Driving.* The Employee Travel Policy clearly states 100% of per diem will be paid on the first and last day of travel if the flight leaves prior to 9:00 am on the first day of travel or the traveler returns after 6:00 pm on the last day of travel, otherwise the employee will receive 75% of the per diem rate. However, the policy is silent when it comes to modes of transportation other than air-travel.²²

¹⁸ Section 5.5.4 Meals of the Employee Travel Policy allows for meal and incidental expense reimbursement on a per diem basis.

¹⁹ CONUS rates, for travel within the continental United States, are available on the U.S. General Services Administration website: <https://www.gsa.gov/travel/plan-book/per-diem-rates>. OCONUS rates, for travel outside of the continental United States are available on the State Department website: https://aoprals.state.gov/web920/per_diem.asp.

²⁰ Employees have to complete a travel request prior to travel with best estimates of costs, and a request for reimbursement of travel after the employee has completed travel. Employees have to explain any major cost discrepancies in the estimate and actual costs.

²¹ The Per Diem Expense Worksheet has an error making it difficult to allow for full per diem on the last day of travel. In the event that the City owes an employee 100% per diem, Finance or the department travel coordinator will make corrections by hand. Finance is aware of the issue and is working to correct it.

²² One department tried to clarify the policy's ambiguity by applying a restriction on per diem based on driving time. For example, two employees received 100% of the per diem for the final travel day. The travel coordinator noted that this was because they had a four and six-hour drive.

The City should clarify the Employee Travel Policy to address per diem on travel days when other modes of transportation are used.

- *Per Diem Reimbursement for Local Travel.* If the combined cost of travel, including the cost of registration, is more than \$500, under the Employee Travel Policy City employees are eligible to receive per diem. This includes conferences and trainings that take place in the Bay Area.²³ Even though the Employee Travel Policy does not allow reimbursement for hotel expenses if travel less than 75 miles from San José City Hall or the traveler’s residence, there is no comparable limit with regards to per diem. This means that a City employee could receive per diem even when the conference is in San José. The City should revise the policy to restrict per diem for local travel.²⁴
- *Some Employees Chose Not to Accept Meals Provided at Event.* We found some instances where employees chose not to attend meals provided as part of an event, yet requested and received per diems for those meals. For example, three employees received per diem for a dinner that was provided with the event registration.²⁵ In another instance, an employee received per diem reimbursement for breakfast even though this meal was included as part of the hotel charge. We referred these instances to the Office of Employee Relations.
- *Specifically Discouraging Meal Purchases.* To simplify reporting, a department actively discourages employees from making individual meal purchases and instead encourage employees to request per diem.²⁶ PRNS reminded its employees in a department-wide email to **avoid** using their City Procurement Card (p-card) to pay for meals and incidentals while traveling and to instead fill out the Per Diem Expense Worksheet for meal and incidental expenses. Further encouragement to use the per diem method would continue to streamline expense reporting.
- *Using City P-Card for Meals.* According to the Employee Travel Policy, all meal and incidental expenses are reimbursed on a per diem basis. Finance prefers that p-cards not be used for meals during travel in order to be consistent with the per diem reimbursement. However, in some cases, individual meal charges (e.g. meals charged on the City’s p-card) were

²³ For example, two employees traveling to and from their home for a conference in the Oakland each received \$130 for per diem. Additionally, two different employees traveled to a conference in Berkeley and each received \$212 in per diem.

²⁴ The City of Atlanta travel policy disallows per diem and travel reimbursement within certain locations in the Metropolitan Atlanta area. Specifically, the policy states that travel and/or training expenses for hotel, transportation and/or per diem will not be reimbursed for counties within 26 counties in the Metropolitan Atlanta area.

²⁵ Although individuals did not attend the dinner, there was not a “*legitimate business or personal reason, such as dietary restrictions*” included in the travel reimbursement submission. After the fact, one individual explained that they were offended by the content of the speeches given at the dinner the year prior. The two other individuals did not attend this same dinner because they were feeling tired.

²⁶ The travel policy does not specifically prohibit employees’ from making individual meal purchases.

deducted from the per diem allocation.²⁷ It would be helpful to remind travel coordinators how to handle these items and discourage use of the City's p-card for meals while traveling.

Personal Expenses on City P-Cards Were Deducted from Per Diem Reimbursements. One employee used their City p-card for an additional personal day when traveling to Southern California for a training. The department travel coordinator denied the extra night and deducted the extra charge from the per diem payment. Department standard practice is for employees to complete a memo of inappropriate p-card use and reimburse the City for those funds—not deduct it from allowable expenses.²⁸ Departments should ensure that memoranda are completed and filed. Finance should clarify how reimbursements are to be handled and should remind travel coordinators about the circumstances under which memoranda are required.

Recommendation #1: The Finance Department and the Office of Employee Relations should clarify per diem reimbursement in the City's Employee Travel Policy. They should define:

- **Limits on per diem for local travel;**
- **How much per diem is allowed for travel days for modes of transportation other than air-travel; and,**
- **How to appropriately deduct meals from the per diem allocation, if separately purchased as part of the travel.**

The Finance Department also reports that it intends to provide Citywide training on the Employee Travel Policy in March 2018. Further, it is in the process of developing a Frequently Asked Questions (FAQ) list which would provide answers to commonly asked travel related questions. This would provide an excellent opportunity to include guidance on these issues. Both the training and FAQs provide an excellent opportunity to give additional guidance on these issues.

Acceptance of Online Hotel Booking Service Receipts

The Employee Travel Policy requires that travelers submit itemized hotel receipts. Finance uses itemized receipts to verify payment, ensure that the individual stayed at the hotel, and make sure no bundled hotel expenses were included. Finance also checks for expenses not covered by the City (like room service) and determines the allowable CONUS rate with the appropriate tax. In our review, we found multiple instances where receipts from online booking services were

²⁷ For example, an employee purchased \$75 worth of meals on her City p-card even though she requested per diem reimbursement. The travel coordinator had to then deduct these charges from the overall per diem allocation even though the City's travel policy states that "all meals and incidental expenses are reimbursed on a per diem basis".

²⁸ We also found that one employee requested and received reimbursement for \$20 parking fee that was for personal use. The employee reimbursed the City when we brought it to the travel coordinator's attention.

accepted.²⁹ The travel policy should clarify that employees who book their hotel through an online site should still request an itemized receipt from the hotel.

Recommendation #2: The Finance Department should clarify the travel policy to require employees to provide itemized hotel receipts, even when using online booking sites.

Some Reimbursement Requests Were Submitted Late

The City's Employee Travel Policy requires that employees submit travel receipts within 30 days of travel. This policy states:

Within 30 days after completion of travel, an approved Reimbursement of Travel Statement shall be submitted to Finance for processing. Statements that are not turned in within 45 days from the Return Date shall be considered delinquent.

Employees did not always submit reimbursement requests in a timely manner. For example, two employees traveled to Denver for training in October 2016. The reimbursement requests were not submitted until May and June 2017 respectively—about seven months after the travel was completed.

In another instance, two employees traveled to China in September 2016 for a trade event. The reimbursement request for this travel was not submitted to Finance until February 2017 and was not processed until June 2017.

Submitting reimbursements timely is not only important for the City's record keeping purposes, but it is also important for rules regulating the timeline reimbursement requests by the Internal Revenue Service (IRS). Specifically, the IRS requires that expense reports be filed within a reasonable time-period (60 days), otherwise any employee reimbursement may be considered taxable. While the City requires reimbursements to be submitted within 45 days, this requirement is not enforced.

The reimbursement time limits should be enforced and employees should be made aware of the importance of submitting the requests in a timely manner.

²⁹ For example, two employees traveled to Boston for a conference and booked a hotel online using a City p-card and attached a receipt from Hotels.com.

Recommendation #3: Include in the City’s Employee Travel Policy, a reference to the IRS guidance for employees to submit travel reimbursement requests within 60 days of travel or any employee reimbursement may be considered taxable. Where applicable, treat travel reimbursements as taxable.

Implementation of an Electronic System

Our 2013 audit of travel recommended that, to minimize work effort and facilitate timely approvals, the Administration should implement an electronic travel authorization system, and in the meantime should encourage departments to use electronic pre-trip and post-trip approval. The 2013 audit noted that the broader use of email or another shared electronic system could greatly expedite the travel approval process.

The City has not implemented an electronic travel submittal and approval program. Employees continue to use a mostly paper-based system for approving, reviewing, and submitting documents. Further, Finance maintains all requests along with the backup documentation in an archaic file storage system. Exhibit 3 shows the documentation Finance maintains.

Exhibit 3: Finance Travel Reimbursement Storage



Source: Auditor’s Office

Other Options for Electronic Travel Approval

The City of Atlanta (Atlanta) has been successfully using an electronic travel approval system called iExpense (a module in their Oracle system). According to staff in Atlanta, using iExpense for travel reimbursements is fairly easy—the information submitted is similar to that used in a paper based system, but the electronic system allows for an automated work flow. Once the reimbursement is filled out by the traveler, the form is automatically sent to the appropriate person in the department for review. Receipts can be attached as scanned documents, pictures, or PDFs. The system is integrated with the City of Atlanta’s accounts payable system and payment can be approved and paid directly to the employee.

The Silicon Valley company interviewed for this audit also has had success using a similar electronic approval system. They use a hosted expense report application for both booking/paying for airfare, and for the approval process—including uploading receipts, getting approval, and more. Administrators can set different rules in the system per the organization’s travel policies. Receipts can even be uploaded while traveling, through a mobile application. Once everything is processed, the sheet can be extracted and sent to their payroll system.

It is our understanding that the City is moving to implement several business process automation projects. We are hopeful that the automation of travel reimbursements can be added to the list of potential projects.

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Finding 2 Gas Cards Lacked Necessary Controls

Summary

Our review revealed Chevron gas cards were being used by two departments. However, there was no policy guiding their use, no tracking of the cards or the staff who were using these cards, no check-out logs for the vast majority of the cards, and no verification of purchases for appropriateness. The City canceled the majority of cards and is in the process of revamping the program.

Use of Gas Cards Lacked Necessary Controls

During our review, we observed use of gas cards for travel when using City vehicles. The City's previous General Services Department³⁰ apparently issued the cards years ago and the Public Works Department has been processing the bills for at least the last decade. The Police Department had a total of 83 Chevron gas cards; Parks, Recreation and Neighborhood Services has two Chevron gas cards. Public Works reports that around \$60,000 annually is charged to these cards for gas and incidental repairs.³¹

This appears to be a legacy program—most staff thought the Chevron cards were removed from circulation long ago. There are no City policies limiting the use of gas cards. Additionally, because of the annual dollar amount expended on these cards, a competitive procurement process may be required. According to the San José Municipal Code Section 4.12.210 purchases over \$10,000 require a competitive procurement.

Overall, there is a lack of internal controls guiding the monitoring and use of these cards. Each month the Public Works staff technician forwards a copy of the invoice to an analyst in their respective departments. To avoid late fees and penalties, Public Works makes payments on these cards without thorough review or confirmation of department review for appropriateness.

The cards were actively used by various units in the Police Department, with no centralized control of the cards or review of expenditures. In fact, it was unclear whether the bills that Public Works forwarded to their contact in the Police Department were ever distributed to the various units using the cards to confirm that all expenditures were appropriate. Furthermore, the unit we reviewed could not produce a valid list of who had the cards, when, or if they were checked out at the time of the audit. There was no up-to-date list of staff that have the cards. The

³⁰ The General Services Department no longer exists as a separate department.

³¹ Because there is no City policy around the use of these cards, it is not clear what those incidental repairs would be.

log maintained by the Police Department analyst included multiple staff that had retired several years ago or left the department.

Moreover, the gas cards have no dollar limits on daily purchases, and it is not clear what, if any, receipts or backup documentation are required. This is in stark contrast to the City's review of p-card purchases. The City's Procurement Card Policy clearly and very specifically states that the p-card is for business use only. Additionally, p-cards have monthly dollar limits and several layers of review. Approving officials are required to ensure that appropriate backup documentation is provided with each p-card statement.

After we brought this issue to their attention, PRNS decided to cancel its gas cards and instead require employees to use the City p-cards.

The Police Department has reviewed and canceled 40 gas cards. The Department reports that it will turn over management of the program to its Fiscal Unit which manages the Department p-cards. After policies and procedures have been developed, employees will be required to certify their understanding of the policies, track usage and provide documentation to the Department's Fiscal Unit to verify.

The Police Department noted that while it is planning to cancel most of the remaining cards, it intends to retain use of about 10 of these cards. The Department anticipates using the State gas card program that the Department could piggy-back onto. The Fiscal Unit would be responsible for reviewing card usage and following up on the procurement.

Finally, we should note that the Police Department reviewed and verified gas card transactions for the past six months for appropriateness and did not identify any issues.

Recommendation #4: The Police Department should finalize its review of the gas card program, including the appropriate procurement method to obtain these cards, and develop policies and procedures for their use.

Conclusion

The City's Travel Policy guides employee travel. While the City's travel approval process appears to meet its intended goal, some opportunities for improvements exist. We also found that the City's use of gas cards lacked necessary controls and should continue to be revamped.

RECOMMENDATIONS

Finding 1: The Travel Approval Process Appears to Meet Its Intended Purpose but Some Opportunities for Improvements Exist

Recommendation #1: The Finance Department and the Office of Employee Relations should clarify per diem reimbursement in the City's Employee Travel Policy. They should define:

- Limits on per diem for local travel;
- How much per diem is allowed for travel days for modes of transportation other than air-travel; and,
- How to appropriately deduct meals from the per diem allocation, if separately purchased as part of the travel.

Recommendation #2: The Finance Department should clarify the travel policy to require employees to provide itemized hotel receipts, even when using online booking sites.

Recommendation #3: Include in the City's Employee Travel Policy, a reference to the IRS guidance for employees to submit travel reimbursement requests within 60 days of travel or any employee reimbursement may be considered taxable. Where applicable, treat travel reimbursements as taxable.


Finding 2: Gas Card Program Lacked Necessary Controls

Recommendation #4: The Police Department should finalize its review of the gas card program, including the appropriate procurement method to obtain these cards, and develop policies and procedures for their use.

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APPENDIX A

Reimbursement of Travel Form



SAN JOSE
CAPITAL OF SILICON VALLEY

Reimbursement of Travel

HELP

1. Employee Information

Employee		Dept. ==> Select Your Department	
Job Title		Visible Code	
Employee ID		Home Zip Code	Phone No.:
Hourly / Salaried <input checked="" type="radio"/> Hourly <input type="radio"/> Salaried		Select Purpose	<input type="radio"/> In-State <input checked="" type="radio"/> Out-of-State

2. Group Travel Yes No (Group travel defined in City Travel Policy 1.8.2)

Names of other Travelers			
1	3	5	
2	4	6	

3. Travel Itinerary

Event Name:			
Event Location:	City:	State:	
Departure Date:	Event Start Date:	Event End Date:	Return Date:

4. Travel Expenses

Category	Detailed Description	Estimated Expenses	Actual Expenses	Prepaid Expense	
				Amount	Method
Registration		-			Select
Airfare		-			Select
Lodging		-			Select
Ground Transportation		-			Select
Per Diem		-			Select
Parking		-			Select
Other		-			Select
Total		-	-	-	

5. Unforeseen Travel Expenses (expenses that were not pre-approved must be entered in this section)

Final Total Travel Expenses	-	If Final Total Travel Expenses exceed Total Estimated Expenses, refer to Section 4.4 of Employee Travel Policy for further instructions.
Prepaid Expenses	-	
Total Due Employee/(Due City)	-	

6. Notes

7. Certification

I certify that I have read and understand the City's Travel Policy and that the reimbursable expenses comply with the policy and its intent. I also verify that all expenses reported on this form were incurred by me for City business purposes.

Employee Signature			
	Emp ID #	Signature	Print Name
			Date

I certify that I have reviewed the expenditures and related documentation associated with the reimbursable expenses and confirm that they are in compliance with the City's Travel Policy.

Direct Supervisor			
	Emp ID #	Signature	Print Name
			Date

I certify that I have reviewed the expenditures and related documentation associated with the reimbursable expenses and confirm that they are in compliance with the City's Travel Policy.

Travel Coordinator			
	Emp ID #	Signature	Print Name
			Date

I certify that I agree with the expenditures contained in this Statement and confirm that they are in compliance with the City's Travel Policy, were incurred for City business and are within budgetary limits.

Approving Official			
	Emp ID #	Signature	Print Name
			Date

Finance/Travel Desk:	Date Rec'd:	Date Processed:	Finance Payroll:	Date Rec'd:	Date Processed:	Pay Period of Paymt. or Deduction:
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APPENDIX B

Police Department Travel Confirmation Email

Hello [REDACTED]:

We have reviewed your travel form and please proceed making the travel arrangement for

Destination City	State	Purpose	Departure Date	Return Date
Boulder	CA	Sig Sauer classic line pistol armorer course	9/6/16	9/7/16

You are approved for the following:

Category	Approved	Amount	Notes	Receipt Required
Registration	√	\$415.00	<u>Valid receipt required.</u>	▲
Airfare	√	\$315.96	<u>Valid receipt required.</u> Boarding passes are required if the airfare was purchased on your <i>personal credit card</i> . MANDATORY use of SJC airport unless the added cost of the trip exceeds \$250. No early boarding fees allowed.	▲
Hotel	√	\$375.00	<u>Valid itemized receipt required.</u> Ask for the Government rate.	▲
Ground Transportation – Rental Car	√	\$226.00	<u>Valid receipt required.</u> Please use the City Enterprise account (attached). No GPS, neither insurance, nor options will be covered; gas should be filled before vehicle is returned. **COMPACT or MID-SIZE CARS ONLY**	▲
Ground Transportation – Taxi/Shuttle			<u>Valid receipt(s) required.</u>	▲
Per Diem or Itemized Meals and Incidentals	√	\$162.25	Per diem rates will be limited to 75% on the first and last day of travel. If your flight leaves prior to 9AM <u>or</u> returns after 6PM, you are eligible to receive 100% of per diem for the first/last day. <u>Meals provided by the event will be deducted from the per diem.</u>	
Other			<u>Valid receipt required.</u>	▲

Please inform the travel desk of any variances from the approved expenses above ASAP.

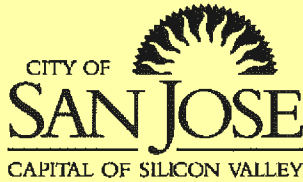
EXPLANATIONS ARE REQUIRED for variances over \$100 from the approved amounts above.

***Note:** Receipts are still required even if you use a City P-card.

*****IMPORTANT***** Please complete the Reimbursement of Travel Form within 14 days of returning from your trip.

NOTE: Failure to submit your reconciliation form and receipts within 14 days of your return date may result in Finance denying any expected reimbursement. *Statements that are not turned in within 14 days from the Return Date will be considered delinquent.*

***NOTE:** Per City Travel Policy 1.8.2 - OVERTIME pay is not allowed for travel time.



Memorandum

TO: SHARON ERICKSON
CITY AUDITOR

FROM: Julia H. Cooper
Director of Finance

SUBJECT: SEE BELOW

DATE: November 7, 2017

Approved

Date

11-7-17

SUBJECT: RESPONSE TO AUDIT REPORT -- AUDIT OF EMPLOYEE TRAVEL EXPENSES

The Administration has reviewed the Audit of *Employee Travel Expenses* and is in agreement with the recommendations identified in the report. The following are the Administration's responses to each recommendation.

Consistent with other priority-setting processes, the City Council adopted a new framework for the Administration's response to Audit recommendations in May of 2015. As with other priority processes, the green, yellow and red light system is utilized to convey the Administration's operational readiness to undertake workload demands. Green administrative responses represent items that are either in existing work plans or are part of work already underway. Yellow administrative responses represent items that would take more than 40 hours including research and policy/ordinance development. Red administrative responses indicate that the item is not feasible. The Administration's response to each of the Audit's recommendations is presented below employing the green, yellow and red light system consistent with City Council direction in May 2015.

BACKGROUND

City employees travel for a variety of work-related reasons, including but not limited to conferences and training, investigations, background checks, and prisoner extraditions.

In accordance with the City Auditor's Fiscal Year 2016-2017 Audit Work Plan, the City Auditor completed an audit of employee travel expenditures for purposes of evaluating employee travel expenses for appropriateness and compliance with City policy and procedures.

RECOMMENDATIONS AND ADMINISTRATION'S RESPONSE

Finding 1: The Travel Approval Process Appears to Meet its Intended Purpose but Some Opportunities for Improvements Exist

Recommendation #1: The Finance Department and the Office of Employee Relations should clarify per diem reimbursement in the City's Employee Travel Policy. They should define:

- **Limits on per diem for local travel;**
- **How much per diem is allowed for travel days for modes of transportation other than air-travel; and,**
- **How to appropriately deduct meals from the per diem allocation, if separately purchased as part of the travel.**

Administration's Response to Recommendation #1:

The Administration agrees with this recommendation and has drafted a revised version of the Employee Travel Policy to provide clarity where it was previously lacking. Additionally, the Finance Department will work with Travel Coordinators to ensure proper accounting of meal deductions from the per diem allocation.

Target Date for Completion: 3 - 6 months

Green Light

Yellow Light

Red Light

Refer to budget process

Refer to Council Priority Setting

Recommendation #2: The Finance Department should clarify the travel policy to require employees to provide itemized hotel receipts, even when using online booking sites.

Administration's Response to Recommendation #2:

The Administration agrees with this recommendation and has drafted a revised version of the Employee Travel Policy that clarifies that itemized hotel receipts must be submitted and that online booking receipts are not an accepted form of travel documentation.

Target Date for Completion: 3 – 6 months

- Green Light Yellow Light Red Light
 Refer to budget process
 Refer to Council Priority Setting

Recommendation #3: Include in the City's Employee Travel Policy, a reference to the IRS guidance for employees to submit travel reimbursement requests within 60 days of travel or any employee reimbursement may be considered taxable. Where applicable, treat travel reimbursements as taxable.

Administration's Response to Recommendation #3:

The Administration agrees with this recommendation and has drafted a revised version of the Employee Travel Policy to note that reimbursements may be taxable when travel statements are submitted to the Department of Finance more than sixty days after the travel has completed.

Target Date for Completion: 3-6 months

- Green Light Yellow Light Red Light
 Refer to budget process
 Refer to Council Priority Setting

Finding 2: Gas Cards Lack Necessary Controls and Should Be Discontinued Until Controls Are in Place

Recommendation #4: The Police Department should finalize its review of the gas card program, including the appropriate procurement method to obtain these cards, and develop policies and procedures for their use.

Administration's Response to Recommendation #4:

The Administration agrees with this recommendation.

Target Date for Completion: 3-6 months

- Green Light Yellow Light Red Light
 Refer to budget process
 Refer to Council Priority Setting

SHARON ERICKSON, CITY AUDITOR

November 7, 2017

Subject: Response to Audit of Employee Travel Expenses

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COORDINATION

This report had been coordinated with the Police Department and the City Manager's Office of Employee Relations.

CONCLUSION

The audit report provides recommendations to clarify aspects of the Employee Travel Policy and to address issues involving gas cards. The Administration values these recommendations for opportunities to improve. The Department would like to thank the City Auditor and staff for this operational review.


JULIA H. COOPER
Director of Finance

For questions, please contact Grace Martinez, Deputy Director of Finance, Accounting at (408) 535-7034.