



22-05

INTERNAL AUDIT REPORT

Employee Reimbursements [Non-Travel]

2022

City of Sioux Falls Internal Audit
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Introduction

The Employee Reimbursement (Non-Travel) audit for Finance was included as an assurance audit on the 2022 Annual Audit Plan. The purpose of the audit was to determine the effectiveness of controls over employee reimbursements and compliance with City policy, procedures and best practices. Controls are intended to provide reasonable assurance, but cannot guarantee, that fraud & errors will not occur. The audit focuses on controls to prevent fraud, waste and abuse as outlined in the Finance Accounts Payable Policy and best practices.

Background

The City of Sioux Falls offers employees the ability to receive reimbursement for business expenses incurred on the job. The expense reimbursement program is currently governed by the City Accounts Payable Policy, Executive Orders and various collective bargaining agreements. This does not include employee reimbursements while in travel status which are processed separately and have their own City policy. The total amount reimbursed through the program in 2021 was approximately \$45,510. In addition to business expenses, the reimbursement program is utilized to reimburse benefits for employees such as car allowance/mileage reimbursement, education assistance, the employee recognition program, tool allowances and boot allowances. The largest reimbursement paid to an employee in calendar year 2021 was \$1,456.80 with the average reimbursement being \$303.40. The most common types of employee reimbursements are mileage, tool allowances, boot allowances, and professional licenses, certifications and training. The most reimbursements to a single employee during 2021 was 14; however, the average number of reimbursements to an employee in the sample was one.

Employee's most commonly submit expenses for reimbursement via email to the Finance department. The justification for the business expense is often handwritten on the scanned receipt and attached to the email or written in the body of the email. The City's online expense management system, Munis, is utilized to process reimbursements and store receipts or other support required for reimbursement. The accounts payable process as a whole is monitored by Finance and all expense reimbursements should comply with applicable City policies and procedures. The individual types of reimbursements and various thresholds eligible for reimbursement are the responsibility of department management to monitor.

The City maintains various policies and procedures applicable to the employee reimbursement process on the City intranet, Insite, such as the Accounts Payable Policy, Purchasing Card policies, collective

bargaining agreements and executive orders such as for education assistance, car allowance/mileage reimbursement, and the employee recognition program. These provide guidance to employees on the eligibility of expenses for reimbursement requests.

Objective

To determine the effectiveness of controls over employee reimbursements and compliance with City policies, procedures and best practices.

Scope

The audit scope included a review of employee reimbursement expenses, supporting documentation and substantiation of expenses, segregation of duties and policies, collective bargaining agreements, executive orders and procedures as they are currently in place. Travel related employee reimbursements were excluded from the scope of this audit. The detailed testing of transactions covered the twelve-month period of January 1, 2021 through December 31, 2021.

Methodology

To test the operating effectiveness of internal controls over employee reimbursements, we performed a number of activities including the following:

- Review of written policies and procedures over the employee reimbursement process.
- Interviews with management and staff.
- Review of other municipal/county employee reimbursement audits.
- Review of best practices including Government Finance Officers Association best practices on segregation of duties.
- Review of a sample of employee expense claims to determine if reimbursement requests were completed according to policy, procedure and best practices including:
 - Eligibility of expenses
 - Supporting documentation
 - Justifications for business expense.
- For the same sample of employee travel expense claims, the segregation of duties was reviewed to ensure the traveler did not enter their own expense claim and to verify if the same individual both requested, entered or approved the claim.

Results

Policies and Procedures

The policies and procedures governing employee reimbursements were reviewed to ensure they were current, cohesive and in line with best practices. We found that the Finance Accounts Payable Policy provided adequate detail and clarity for typical accounts payable transactions and duties. However, internal controls could be strengthened by a dedicated policy for employee reimbursements.

Opportunity 1: Need for a dedicated Employee Reimbursements Policy

Currently, there is no dedicated policy for non-travel related employee reimbursements. The process is governed by the Accounts Payable Policy in tandem with various Executive Orders and collective bargaining agreements. To strengthen internal controls and increase consistency/clarity, a dedicated policy for employee reimbursements would be best practice. A specific policy provides details specific to employee reimbursements that might differ from regular Accounts Payable items paid to outside vendors (such as sales tax typically is not paid but is included for employee reimbursements, what is the procedure if an original receipt cannot be obtained, how is the "timeliness" of submitting invoices defined, etc.) Because the Accounts Payable policy isn't specific to employee reimbursements and the Executive Orders are also short and don't provide a great deal of detail, there is potential for inconsistencies when applying these various policies to employee reimbursements. Centralized, complete and documented policies and procedures allow a process to be executed effectively in a controlled manner.

See recommendation 1.

Effectiveness of Internal Controls and Compliance

Overall, we found that employee reimbursements are processed according to policy, procedure and best practices. Testing procedures for the effectiveness of internal controls and compliance with policy, procedure and best practices included a site visit, review of the relevant policies, discussion with key personnel, and a detailed testing of a sample of 27 employee reimbursements. Detailed testing of the sample included verifying that expenses were for eligible costs, processed according to policy and procedure and included necessary supporting documentation/justification of business expense. There were no compliance issues in the 27 employee reimbursement invoices tested. However, there is an opportunity to

improve internal controls through standardizing the requests for reimbursement.

Opportunity 2: Lack of Standardized form/cover sheet for reimbursements

We found that employee reimbursements are currently submitted most commonly via email with handwritten notes on the receipts describing the expense request for reimbursement. A standardized cover sheet or form would ensure that all the necessary details are provided including any pre-approvals if needed at the department or division level. This ensures expenses comply with the citywide accounts payable policy, executive orders, collective bargaining agreements and any newly implemented employee reimbursement specific policies in the future. It would also avoid any difficult reading handwritten notes regarding business purpose justifications. The travel reimbursement process utilizes a form to ensure compliance in a similar manner. The potential effect of the lack of a standardized form is inconsistency in applying the policies and procedures which increases the risk of fraud, waste or abuse.

See recommendation 2.

Segregation of Duties

Segregation of duties was reviewed to determine if employee reimbursements are properly segregated to ensure compliance with City policy and best practices for internal controls. Testing procedures for segregation of duties included a site visit, discussion with key personnel, and a detailed testing of a sample of 27 employee reimbursements to ensure the roles of reimbursement request, entry, and approvals were properly segregated. All of the reimbursement requests tested were entered by an employee other than the individual requesting reimbursement. Additionally, all of the reimbursement requests tested were approved by an employee other than the one requesting reimbursement or entering the request into Munis. There were three instances in the sample where the employee was no longer employed by the City of Sioux Falls at the time of testing. Segregation of duties was verified by using the names listed in invoice audits and approvers sections in Munis and then C numbers were found utilizing the Employee Look-up function on Insite. There were also five instances of reimbursements to vendors who were not City of Sioux Falls employees which were excluded from testing. Overall, we found that appropriate segregation of duties are in place to prevent fraud, waste, abuse and errors in the employee reimbursement process.

Recommendations and Management Response

1 We recommend implementing a dedicated policy for non-travel related employee reimbursements which provides details specific to employee reimbursements that might differ from regular accounts payable items paid to outside vendors (such as sales tax typically is not paid but is included for employee reimbursements, what is the procedure if an original receipt cannot be obtained, how is the "timeliness" of submitting invoices defined, etc.)

Management's Response: An Employee Reimbursement Policy and Procedure document addressing departmental, meeting and board expenses as well as non-travel expenses is currently drafted and will be communicated to employees during the month of December.

Management Representative Responding: Janelle Zerr, Finance Manager

Date of expected implementation: The effective date for the new policy will be January 1, 2023.

2 We recommend developing and implementing a standardized cover sheet or form to ensure that all the necessary details are provided with the reimbursement request. This would also ensure expenses comply with the citywide accounts payable policy, executive orders, collective bargaining agreements and any newly implemented employee reimbursement specific policies in the future. The travel reimbursement process utilizes a form to ensure compliance in a similar manner.

Management's Response: A standardized form will be developed to allow the employee to provide details in regards to the reimbursement. This form will be implemented in conjunction with the new Employee Non Travel and Department Reimbursement Policies that will be effective January 1, 2023.

Management Representative Responding: Janelle Zerr, Finance Manager

Date of expected implementation: January 1, 2023

Conclusion

Based upon our review of the process for non-travel related employee reimbursements, it was determined that adequate controls exist over employee reimbursements and reimbursements are processed in compliance with City policy, procedures and best practices. One particular area of success was the quality of segregation of duties in place. There are also opportunities to strengthen controls and improve the overall process regarding a dedicated employee reimbursements policy and standardized claim form. The above recommendations will provide additional assurance to mitigate the risk of potential fraud in regard to employee reimbursements. No evidence of fraud, waste or abuse was detected. We would like to thank the Finance Department for their assistance provided during this audit.

Authorization

The Sioux Falls City Council approved this audit by resolution and it was included as an Assurance Audit in the 2022 Annual Audit Plan. The Internal Audit Division operates under the authority of Sections 32.010 through 32.025 of the Sioux Falls Code of Ordinances.

Audit Standards

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

Statement of Independence

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per Section 32.022 of the Code of Ordinances of Sioux Falls, SD.

Distribution of Report

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

Performed By

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