Travel and Entertainment Expense Audit
April 2018

Audit Report
Internal Audit

Distribution
Audit and Finance Subcommittee
Scott Smith, Chief Executive Officer
Paul Hodgins, Chief Financial Officer
Penny Lynch, Human Resource Director
Michael Minnaugh, General Counsel
To Scott Smith, Chief Executive Officer:

The purpose of this report is to communicate the results of the Travel and Entertainment Expense Internal Audit. The audit was part of Valley Metro’s Internal Audit annual audit plan for fiscal year 2017.

The report includes the following sections: Objective, Scope and Methodology, Background, and Audit Findings.

The process by which travel is requested and reimbursement for travel and entertainment expenses were found to be a highly visible and documented. Internal controls continue to be expanded and enhanced as evident by the modifications made to the request and reimbursement process during the timeframe of the review. Management has taken a proactive role in updating documentation as improvements have been self-identified. Therefore, minimal verbiage updates and additional explanation as to costs are recommended to provide further clarity.

During the course of this audit individuals assisted by providing information on how the process works and supplied evidence for testing. Their support is greatly appreciated.

This report is intended for use by only those listed explicitly on the cover page distribution list and internally within Valley Metro Regional Public Transportation Authority.

If you have any questions or would like further clarification, please contact me at 602-322-4453.

Mary Modelsiki
Internal Auditor
April 6, 2018
Objective:

Determine whether Travel and Entertainment Expenses requested, incurred and reimbursed adhered to Valley Metro policies.

Scope:

The timeframe of the items under review was from July 1, 2016 through June 30, 2017. Items that were incurred prior to or carried over from this timeframe and that fall into the scope timeframe may be included within the population.

Items that were reviewed include: entertainment venues, hotel, airfare, rental cars, transportation, registration fees for conference/seminars/training, per diem, travel advances, tips, baggage fees and any other costs incurred during the course of travel or paid for by Valley Metro.

Methodology:

One hundred percent of the population was reviewed. Due to the sensitive nature of this area of expenditure, Internal Audit looked for 100% compliance. As exceptions were found, Internal Audit reported such exception to allow management to tighten controls surrounding the process.

We focused on the following areas:

- Proper preapproval for business required travel.
- Accuracy of traveler input.
- Verification, reconciliation, tracking and approval of each trip by the Travel Administration team.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed key staff in charge of Travel Administration in order to gain an understanding of existing internal controls.
- Obtained and reviewed the Travel Policy (effective July 28, 2016) and Travel Control List for fiscal year 2017 and compared them to:
  - A listing of the fiscal year 2017 Wells Fargo Travel Credit Card transactions and
  - The general ledger postings from the Abila Accounting System for the accounts associated with travel: 6307, 7305, 7306 and 7820.
Background

Valley Metro Internal Audit fiscal year 2017/18 approved Audit plan includes the Travel and Entertainment Expense audit. The Audit plan was approved by Audit and Finance Subcommittee (AFS) on June 15, 2017. The Audit plan was compiled by conducting a high-level risk assessment of the organization, including, interviewing members of the AFS and Valley Metro executive management (management), along with review of previous audit findings. An area of concern communicated by both the AFS and members of the management was expenses related to travel and entertainment. The greatest area of concern was related to compliance with the revised Travel Management Policy (policy). Significant modifications were made to the policy and process since issuance of the City of Phoenix Travel and Expense Audit released April 26, 2016.

Since issuance of the City of Phoenix audit report, management has implemented a number of changes to the area of travel and entertainment, including:

- Issuance of a revised Travel Management policy dated July 28, 2016;
- Requiring pre-approval by the Chief Executive Officer (CEO) before travel can be booked;
- Restricting who may make travel arrangements; and
- Including language in the Travel Management policy that allows travelers staying at a conference hotel, if necessary, to exceed the daily GSA rate.

Valley Metro incurs travel for a number of business purposes, including:

- Quarterly reporting to the Federal Transit Authority (FTA) on the status of capital projects;
- Attendance and/or presentation at training, meeting and/or conferences;
- Pre-inspection of equipment, such as buses and rail cars; or
- Observation of other jurisdictions transit systems.

Travel Administrators

Valley Metro does not use an outside agent or service to book travel. Employees, contractors, and members of the board (Travelers) provide information about their upcoming travel and/or conference/seminar on the Travel Authorization and Conference forms, route the forms for appropriate approval and then submit to one of three Valley Metro staff members known as “Travel Administrators” to fulfill the individuals travel and/or registration request.

According to the policy, Travel Administrators are “agency staff designated by the Chief Financial Officer (CFO), responsible for making travel arrangements, including registration for conference/seminar, airfare and lodging and post-travel duties including processing travel
expense reports”. Three Travel Administrators are located at 101 North First Avenue (101) building. All three have a Wells Fargo credit card, issued in their names, to book travel related expenses and make purchases on behalf of Valley Metro. The designated Travel Administrators are:

- Executive Administrative Coordinator
- Administrative Assistant III
- Accounting Technician

The Executive Administrative Coordinator primarily focuses on the CEO’s travel needs but will assist with backing up the other two Travel Administrators when necessary. The credit limit for the Administrative Assistant III and Accounting Technician was set at $10,000 during the scope of this audit. In February 2018, the Administrative Assistant III credit limit was raised to $15,000. The Executive Administrative Coordinator credit limit is $15,000.

Booking Travel
To book travel, the traveler must complete and print the tab within the Excel file called the Travel Authorization, last updated on July 1, 2015, located on the Intranet. Within this Excel file are three tabs each representing a different form. The tabs are:

- Travel Authorization,
- Conference,
- Expense Report.

If individuals are traveling inside Maricopa County to attend a conference or seminar, they are to complete the Conference tab only. For a conference, seminar or event outside of Maricopa County, individuals are required to complete both the Travel Authorization and Conference tabs. Upon return from travel outside of Maricopa County, the Travelers must complete the Expense Report tab for reimbursement or to return any excess funds that had been advanced prior to travel.

The Travel Management Policy requires the Agency Travel, Conference and Out-of-County Training Form be submitted at least 21 days in advance of travel, so that the Travel Administrator can purchase travel at least 14 days prior to departure.
Travel Authorization Form
In order for a flight, hotel, and car reservation to be made, the traveler needs to complete the *Travel Authorization* form which includes:

- Name of the requestor, destination and purpose of the travel.
- Requested airlines, departure/return flight number and frequent flyer number.
- Preferred hotel, check in/out date, and General Service Administration (GSA) hotel maximum rate.
- If a rental car or travel advance is needed and if baggage will be checked.
- Cost estimates for the airfare, hotel, meals, transportation, baggage fees, subsidy, travel advance and total estimate of travel.
- Distribution code and activity for financial recording.
- Approval signatures from Supervisor/Manager, Division Director, Chief Financial Officer (CFO) and CEO.

*Travel Authorization* forms from the Greenfield or Tempe facilities are picked up by an employee and hand delivered to the Operation Maintenance Center (OMC). The OMC and Mobility Center place all *Travel Authorization* forms in an inter-office envelop for picked up by courier on Monday, Wednesday and Fridays and brought to the 101 building. This routing of the paper *Travel Authorization* can take different amounts of time to process a reservation, due to a request being held up within different level of management’s in-box and/or need for multiple hand offs for delivery to the 101 building for processing.

Conference Authorization Form
Individuals attending a seminar or conference within Maricopa County are required to only complete and print the *Conference Authorization* tab. The *Conference/Seminar Authorization* form includes:

- Requestors name and division.
- Seminar requested, cost and date offered.
- Relationship of the conference/seminar to job improvement.
- Distribution code and activity for financial recording.
- Approval signatures from Supervisor/Manager, Division Director, CFO and CEO.

Transportation costs associated with attending a conference or seminar within Maricopa County were not considered within the scope of this audit. The chart on the next page illustrates the expense breakdown for conferences, seminars, training and webinars within and outside of Maricopa County.
Travel Expense Audit Report

Upon return from travel, the Travel Expense tab is to be completed, printed and submitted. The Travel Policy states: “If a Traveler accepts a Travel Advance, a settlement must be made based on actual expenses paid. If actual expenses are less than the estimated amount, the Traveler will reimburse the Agency by writing a check payable to the “Valley Metro” for the unused balance and submit it with the Agency Travel, Conference and Out-of-County Training form within five (5) working days of returning to work.” The Travel Policy identifies one of the responsibilities of the traveler is to “submit actual post-travel expenses with itemized receipts and the Agency Travel, Conference and Out of County Training Form to Travel Administrator with five (5) working days after competing travel”.

The Travel Expense form includes:

- Employee name, destination and purpose (of travel expense).
- Breakdown of daily expenses including:
  - Airfare
  - Transportation
  - Lodging
  - Breakfast
  - Lunch
  - Dinner
  - Parking
  - Other
  - Per Diem
  - Daily total
- Any prepaid items are designated by an asterisk (*) on the form.
- Date, description and amount of any other expenses incurred during the trip.
- Distribution code and activity for financial recording.
- Approval signatures from Supervisor/Manager, Division Director, CFO and CEO.

The Travel Expense form requires the employee attach the “Travel Authorization” and certify the expenses reported are in compliance with the Valley Metro Travel Policy” for expenses they incurred and are seeking reimbursement.

The chart to the left represents total amount paid for conferences, seminars, training, and webinars within and outside of Maricopa County. The amount show for “Outside Maricopa” represents registration fees and does not include associated travel expenses, such as: airfare, hotel, per diem, mileage, etc.
The Travel Administrators use a copy of the *Travel Authorization and Conference/Seminar* form to complete their monthly credit card reconciliation for expenses incurred by travelers for items such as airfare, registration, etc...

The policy, dated July 28, 2016, “is intended to ensure Agency related travel is conducted in a manner compliant with public agency best practices, as well as provide guidelines to complete travel procedures related to authorized and budgeted travel”. All travel will provide a justification and will be tracked against the Travel Control List. Emergency travel must be approved by the Division Head responsible and CEO prior to travel.”

**Travel Control List**

The Travel Control is a list of anticipated travel expenses requested on an annual basis during the budget process. As departments, divisions, and/or units are compiling their yearly budget, a list of travel related expenses are compiled. The Travel Control List does not include registration fee for any conferences or seminars as that is considered a separate line item in the budgeting process. The budgeted amount for this timeframe was $152,669.

**Travel Expenses**

Total travel expenses for the Valley Metro amounted to $119,054.33 for time period of July 1, 2016 through June 30, 2017. Fifty five employees made 93 trips during the timeframe. Below are highlighting of travel expenses found during the course of this audit.

**Exhibit 1: Travel Expenses by Type**

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meals</td>
<td>$18,007</td>
<td>15%</td>
</tr>
<tr>
<td>Misc.</td>
<td>$2,124</td>
<td>2%</td>
</tr>
<tr>
<td>Lodging</td>
<td>$59,551</td>
<td>50%</td>
</tr>
<tr>
<td>Airfare</td>
<td>$35,474</td>
<td>30%</td>
</tr>
<tr>
<td>Other Transport</td>
<td>$3,541</td>
<td>3%</td>
</tr>
</tbody>
</table>
Exhibit 2: Average Travel Cost per Category

Exhibit 3: Top Attended Travel Event
During the timeframe under review, management proactively identified areas where internal controls could be enhanced. The Excel Travel Authorization was modified to remove the Conference tab and additional fields were added as listed below. The Conference tab was replaced with a separate form called the Professional Development Request. The Professional Development Request was released in November 2017 and was expanded to include a membership option. Previously, conferences, seminars and training were tracked on the Excel Conference tab. The additional items added to Travel Authorization were:

- Name of traveler as listed on state issued identification
- Name of the event
- Dates the event was being offered
- Reminder below the requestors signature “By signing above I acknowledge that I have read and understand Valley metro’s Travel policy”
- Travel Control List – yes or no
- Cell phone number to provide the airlines with a means to communicate updates
- Registration code general ledger distribution code

The Travel Expense Report was also modified in August 2017 to include a line for the Chief Executive Officers signature. Management appears to be continuing to self-review the process and modifying to increase controls, streamline the process and improve efficiency.
AUDIT RESULTS

Finding 1: Travel Policy Clarification

The Travel policy:

- Encourages individuals to stay at the conference or training host hotel site. If the host hotel nightly rate exceeds the GSA Lodging Rate Schedule, the excess host hotel rate is authorized. GSA §301-11.303 states: “The maximum amount that you may be reimbursed under actual expense is limited to 300 percent (rounded to the next higher dollar) of the applicable maximum per diem rate.” 17 of 93 travel instances were identified where the daily rate for lodging was in excess of the GSA published rate but under the 300 percent cap. The rates ranged from $35 to over $100 per night above the allowed GSA rate. Total spending on lodging for travel during fiscal year 2017 was $59,551, of which a total of $2,539 was spent in excess of GSA lodging limits (4.26%). Additionally, the Travel Authorization form states "Hotel expenses are reimbursable up to the maximum GSA hotel rate". Also, “the traveler is responsible for the difference in the rates." Evidence of reimbursement by the traveler of the amount in excess of the GSA rate did not exist.

- Defines: “Agency Travel, Conference and Out-of-County Training form – The Valley Metro (Agency) form used to process all authorized and budgeted Agency travel. This form requires Division Head, Chief Financial Officer (CFO) and Chief Executive Officer (CEO) signature approval”. Of the 93 forms completed, two Division Head signatures were found not to be present.

- Identifies one of the responsibilities of the traveler is to “submit actual post-travel expenses with itemized receipts and the Agency Travel, Conference and Out-of-County Training form to Travel Administrator with five (5) working days after competing travel”. Of the 93 forms submitted, we found 45 forms were not submitted within five working days, based upon the date of the Expense Report. Below is a table outlining the number of days, after travel was completed, the Expense form was dated:

<table>
<thead>
<tr>
<th>Days</th>
<th>Number of Forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-5 Days</td>
<td>22 forms</td>
</tr>
<tr>
<td>6-9 Days</td>
<td>11 forms</td>
</tr>
<tr>
<td>11-15 Days</td>
<td>5 forms</td>
</tr>
<tr>
<td>Over 18 Days</td>
<td>7 forms</td>
</tr>
</tbody>
</table>

- States: “The Traveler will adjust the Per Diem amount for meals provided by business host or conference when applicable. If hotel has full breakfast included it will be deducted from per diem; continental breakfasts provided will not be deducted”. We found six occasion where a traveler requested per diem when food was to be provided by the host. The policy is silent on situation where the traveler may not be able to take part in others meals provided, due to dietary restitutions or timing of the meal coincides with business requirements.
The Travel policy provides the foundation by which travelers and administrators are to operate. Clear direction and instructions as to what is expected, allowed and un-allowed expenses alleviates confusion and incurring of expense which may be declined.

The Travel policy continues to mature and expand as travelers encounter situations which brings forth the need for further clarity to address situations not previously considered or addressed within the policy. As travelers are held accountable to the provisions within the Travel policy, areas not previously addressed have come to light.

Recommendations:

Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21-day of the submission the Agency Travel, Conference and Out-of-County Training form, the policy should reflect such verbiage. The Travel Authorization form should be revised to include identification if the user is staying at the host hotel and the rate exceeds the GSA rate. Otherwise, revisions to verbiage related to “hotel expense are reimbursed up the to the maximum GSA hotel rate; and a traveler is responsible for the difference in the rates” should be considered. Further clarity should be added to the Travel policy advising the traveler if they are taking part in the meal provided by the host, the per diem amount should reflect accordingly. Travelers should be held accountable for submission of their Expense form within the five-days after travel has been completed. Finally, management should ensure appropriate signatures are gained prior to booking or reconciling final travel expenses.

Views of Responsible Officials:

Management concurs with the recommendation. Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that documentation is proper and complete.

Responsible Party:

Chief Financial Officer

Due Date:

May 31, 2018
Finding 2: Travel Policy Exceptions

After reviewing 93 travel requests, 87 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were:

- One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison nor explanation was not included. Therefore evidence to verify the saving was not present.
- One traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was $96. An explanation as to why this vehicle was selected did not exist within the travel file.
- One traveler utilized the terminal parking at Phoenix Sky Harbor airport for two days. Resulting in a reimbursed expense of $50.00 ($25 a day) verses $22 ($11 a day). The Travel policy states: “economy parking should always be used”. This was the travelers’ first trip for Valley Metro and was unaware of the Travel policy parking requirements.
- One traveler purchased the CEO a $150 ticket for the Rail Rodeo Awards Banquet and submitted the expense. The traveler did obtain the CEO approval on her Expense form; but additional approval was not obtained from the CFO nor Board of Directors on the expense for the CEO.
- On two occasions airfare was purchased at four and six days prior to departure resulting in fares of $1,052.00 (Savannah GA) and $1,285.20 (San Francisco). The Travel policy states: traveler(s) are to “submit the Agency Travel, Conference and Out-of-County Training Form at least 21-days in advance to travel so that the Travel Administrators can purchase travel at least 14-days prior to departure”. The travel was approved, but the reasons why these purchases were made less than 14-days prior to departure was not documented within the travel file.

The Travel policy states: “Extenuating circumstances may arise during travel which may require unanticipated expenses. Whenever possible, approval should be received from the CEO and CFO prior to incurring the expense”. Evidence to demonstrate follow-up on unusual expenses was not maintained with Expense forms. This is resulting in expenses being Travel policy exceptions.

Recommendations:

Management should require travelers acknowledge review of the current Travel policy on an annual basis. Travel Administrators should document within the travel file any unusual requests for travel expenses and receive appropriate approval for such requests prior to
booking. Travelers should be required to explain any unusual expenses incurred on the Expense form prior to being approved for reimbursement.

Views of Responsible Officials:
Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy.

Responsible Party:
Chief Financial Officer

Due Date:
May 31, 2018