



# **Audit Report**

# **Additional Payments**

Issued April 30, 2019  
Audit Report #IAR19-1



April 4, 2019

Mr. John Glascock, Interim City Manager  
City of Columbia, Missouri

I have completed a performance audit regarding additional payments provided to City employees. I conducted this audit in accordance with your request and the 2019-2021 audit plan. The report details the audit objectives, scope, and methodology, present conditions noted for your consideration, and audit recommendations. Management response will also be included in this report.

I would like to thank City staff for their time and assistance in the completion of this audit, particularly the following departments: Finance (Payroll), Fire, Utilities, Public Works, and Police. Additional payments involve every City department; however, Internal Audit focused efforts on departments with the majority of additional payments. Because additional payments affect every department, management response was requested at the level of the City Manager's Office.

This audit was conducted in substantial conformance with the International Standards for the Professional Practice of Internal Auditing (Standards), as promulgated by the Institute of Internal Auditors. Because the internal audit function at the City is recently established, it does not yet have a quality assurance and improvement program as required by the Standards, in order to use the unqualified engagement language. Internal Audit substantively complied with the other engagement requirements as set forth in the Standards.

Respectfully submitted,

*Carey Bryce*

Carey Bryce, CIA  
Internal Auditor  
City of Columbia, Missouri

City of Columbia City Manager's Office  
Internal Audit  
701 E. Broadway, PO Box 6015  
Columbia, MO 65205  
573.874.7627

---

## Executive Summary

---

At the request of the Interim City Manager, and as part of the draft 2019-2021 audit plan, Internal Audit reviewed additional payments as defined by the Columbia Code of Ordinances, Chapter 19, Personnel Policies, Procedures, Rules and Regulations, Article IV, Division 3- Special, and by additional administrative rules. The review included examination of the wording in ordinances and administrative rules, interviews with departments (Utilities, Public Works, Fire, and Police), as well as testing a sample of additional payments made as of an additional payments report dated January 28, 2019. We considered effectiveness and efficiency, reliability and relevance of information, and compliance with applicable regulations and policies. The performance of this audit supports efforts to meet the City's strategic goal of operational excellence, as employee compensation is an important factor in performance and engagement.

At the point in time in which Internal Audit reviewed additional payments, the monetary value of such payments was approximately \$871,000, considered on a yearly basis, and 906 active employees were receiving the payments (some employees received more than one additional payment).

Internal Audit reviewed additional payments based on inquiry, observation, and sample testing. We selected a sample to test from a universe of 2005 active employee additional payments, from the report described above. The sample consisted of 130 additional payments. Of those, 28 contained errors, consisting of missing documentation, incorrect documentation, payments prior to approval, and incorrect payments. There is more detail provided in the Audit Results section. Based on our work, IA found opportunities for improvement in the following areas:

- City ordinances and administrative rules governing additional payments lack clarity and are subject to interpretation as to the necessity of allowances for certain positions, amounts of allowances provided based on job duties, justification for allowances, and in one case, how the allowance is paid to employees.
- Departments lack documented internal procedures for issuing and tracking additional payments, including periodic analyses of the need for additional payments for employees. Additionally, there is no centralized administrative procedure governing additional payments, resulting in a lack of controls along every step of the additional payments process, with departments approaching the process differently.
- Certain processes, such as the entering and management of additional payments in Payroll, and the Fire meal allowance calculation, are very manual, involve several departments, and are not comprehensively documented. This led to additional payments made incorrectly, in some cases for months.
- Discussion with management indicated that additional payments are often used as a mechanism to augment employee pay, skewing what positions should be paid for marketplace competitiveness, and contributing to a lack of clarity as to employees' pay scales.
- The method used to annually verify cell phone allowances is inadequate, and as part of reviewing controls over the area of cell phones, the City should also consider City-issued devices.

Each opportunity for improvement summarized above is explained in further detail in the report in the Issues Detail section. In the report, Internal Audit also presents audit objectives, scope, methodology, recommendations, and management response.

---

## Table of Contents

---

Background .....	1
Objectives.....	3
Scope.....	3
Methodology .....	4
Audit Results .....	5
Issues Detail .....	9

## Background

The City provides additional payments (also called add pays) to certain employees based on job function, title, need, and/or discretion, in some cases. These payments are usually paid out through the normal payroll process on certain schedules, depending upon the type of additional payment. Additional payments are generally addressed in the Columbia Code of Ordinances, Chapter 19, Personnel Policies, Procedures, Rules and Regulations, Article IV, Division 3- Special. There are additional administrative rules and policies and procedures that also govern certain types of additional payments. See below for a summary of additional payments used.

Pay Code	Description	Paid	Pay Basis	Section
610	CDL Coordinator	Regular payroll	When serving	19-99(a)(3)
612	CDL Examiner	Regular payroll	When serving	19-99(a)(3)
700	Police Field Training	Regular payroll	When serving	19-99(a)(1)
702	Police Clothes Allowance	Quarterly	As assigned	19-107(a)
703	\$11 Meal Allowance	Regular payroll	Time worked	19-100(b)
704	Fire Meal Allowance	2x per year	Days worked	19-100(a)
705	Airport Safety Meal Allowance	Regular payroll	Days worked	19-100(a)
706	Paramedic Pay	Regular payroll	Paramedic status	19-99(b)(1)
708	Auto Allowance	24x per year	As assigned	19-113(c),(d)
710	Cell Phone Allowance	24x per year	As assigned	Cell Phone Policy 1.2.2013
712	Protective Eye Wear Allowance	Quarterly	As assigned	19-107(d)
714	Tool Allowance	Quarterly	As assigned	19-104(a)
716	Protective Footwear Allowance	Quarterly	As assigned	19-107(d)
718	Local 773 Allowance	Quarterly	As assigned	19-107(c)
720	Jean Allowance	Quarterly	As assigned	19-107(b)

Additional payments are incorporated into the employee's payroll via the Payroll Additional Pays form sent to the Payroll Division from the requesting department, and should not be added without the approved form. In some cases, such as cell phone allowance, there is an additional form provided, such as the Cellular Telephone Authorization Request Form. There is no additional justification or explanation provided by departments for most additional payments (such as protective clothing allowance), as the form does not require it and it is up to departmental discretion, based on the ordinance, as long as the department director signs it. The information is entered into the City's system of record, Munis, which calculates the additional payment based on the predetermined schedule as shown in the table above, with the exception of Fire Department meal allowance, which is entered manually twice per year.

In the case of the additional payments in the list above that relate to services provided (such as CDL Coordinator) or days worked (such as Fire meal allowance), these are strictly related to the employee's status or time worked as documented on their submitted time report. They are situational or based on certain requirements achieved (such as being a paramedic), and so may occur in a certain pay cycle but may not. Thus, they are not listed on the Additional Payments Form. However, once an employee has been paid under any such pay code that employee will continue to appear on the Munis add pay report because he or she received the payment at least one time. The pay code will only be removed from the employee if he or she terminates or moves to another job code (e.g., is promoted). In the latter case, the employee may once again receive the particular add pay, but it has to be added back to the profile in order to be paid through payroll. Thus, the

additional payment report used by Internal Audit to review additional payments, dated January 28, 2019, was a point in time snapshot of the active employees receiving those pay codes.

An employee can be provided with additional payments at any time during his or her tenure, as long as the Additional Payments Form is submitted by the relevant department. On occasion, an add pay is requested without the form, so that it is not processed, and then when the form is submitted Payroll must manually back date the payments to reflect when the department wanted the add pay to begin, as well as calculate how many payments are owed.

There is no procedure for reviewing ongoing additional payments, as to necessity, if the employee does not change job type, with the exception of an annual certification of the continued need for the employee's cell phone allowance. This is done via one form per division within departments, requiring only a signature from the employee to verify the ongoing need for the allowance and that there have been no changes necessitating a need for adjustment to the allowance amount.

Finally, as per Revised Statutes of Missouri, section 70.600(8), the additional payments are considered compensation, so that they are both taxable and included in the calculation of an employee's earnings for retirement benefits under the Missouri Local Government Employees Retirement System (MOLAGERS).

---

## Objectives

---

The objectives of the Additional Payments Audit are as follows:

- Determine whether City ordinances, policies, directives, and/or procedures are clear and well-defined with respect to additional payments.
- Evaluate if additional payments comply with established City ordinance and, if applicable, department policies.
- Determine whether additional payments are appropriately needed/assigned based on employee job duties.
- Test additional payments to determine if they are adequately calculated, documented, and supported.

---

## Scope

---

The additional payments report used as the basis for analysis was generated by Human Resources as of January 28, 2019, and covered active employees who had received additional payments in the pay codes as identified in the table in the Background section, through the pay period ending January 26, 2019. The report is a point in time report per pay period and thus does not cover a specific range of time. When testing items, Internal Audit used the most recent pay period to validate payments, and the pay period immediately predating the approval of the allowance, to ensure it was not paid prior to approval.

The scope of this audit excluded testing of all pay code types, as some were deemed too low of risk or monetary impact to test. Also, we did not verify departmental calculations of the Fire meal allowance, or conduct detailed investigation into employee job duties to verify the necessity for the allowance. We identified four specific departments to further investigate for additional procedures, rather than meeting with all City departments, based on the number of additional payments applicable to each department as identified by high-level review of the report. Finally, Internal Audit did not perform detailed analyses of alternatives to additional payments, such as budget review, financial impact of salary increases, cost of changing all such payments to reimbursement basis only, or the costs of committing to only cell phone reimbursements or City-issued devices.

The scope of the audit was focused on evaluating the policies in place to identify and allow the additional payments, procedures to institute additional payments, and controls over the payments to employees. Any Internal Audit recommendations which may include analyses such as those described as outside the scope of the audit presume that the departments, or City as a whole, would undertake such reviews as needed to best address effectiveness and efficiency.

---

## Methodology

---

To achieve the audit objectives, Internal Audit performed the following procedures:

- Interviewed Payroll, Fire, Utilities, Public Works, and Police staff.
- Reviewed City ordinance, Administrative Rules, directives, and departmental policies and procedures.
- Reviewed the additional payments report data to determine if all pay types described in ordinance or rules were included.
- Verified the additional payments report data completeness.
- Determined which departments had the most additional payments and met with each to gather additional information regarding departmental procedures for additional payments.
- Via additional payments report analysis, selected 10 additional payment types for testing, and then selected 130 items (employees within each pay type, meaning that an employee could be selected twice for different pay types) covering all 10 types, based on both dollar amount and number of additional payments in each type.
- Tested 130 items for approval, appropriate addition to the employee's record, support and/or justification, and correct calculation via review of documentation in Munis.
- Performed a high-level analysis of number and coverage of City-issued cell phones and devices.
- Evaluated controls over the additional payments process at each interview or review stage.



## Audit Results

The City of Columbia provides additional payments to employees who perform certain job duties, such as providing mechanics with allowances for jeans, tools, and safety boots, or giving management personnel car and cell phone allowances.

Based on our review, we concluded that the ordinances that govern additional payments should be clarified and defined to limit interpretation, and that the City should implement lower-level controls such as documenting Citywide administrative procedures to add specificity to ordinance, and having departments perform periodic analyses of their additional payments to ensure they are correct and needed. Also, the additional payments process is very manual for Payroll and for certain payments, such as the Fire meal allowance, leading to a possibility of errors, some of which may not be corrected for a long period of time. Considering these factors, the City may, alternatively, look at changing to a reimbursement basis for some of the additional payment items (such as mileage, clothing, and safety gear), particularly since departments already have clothing budgets for employees.

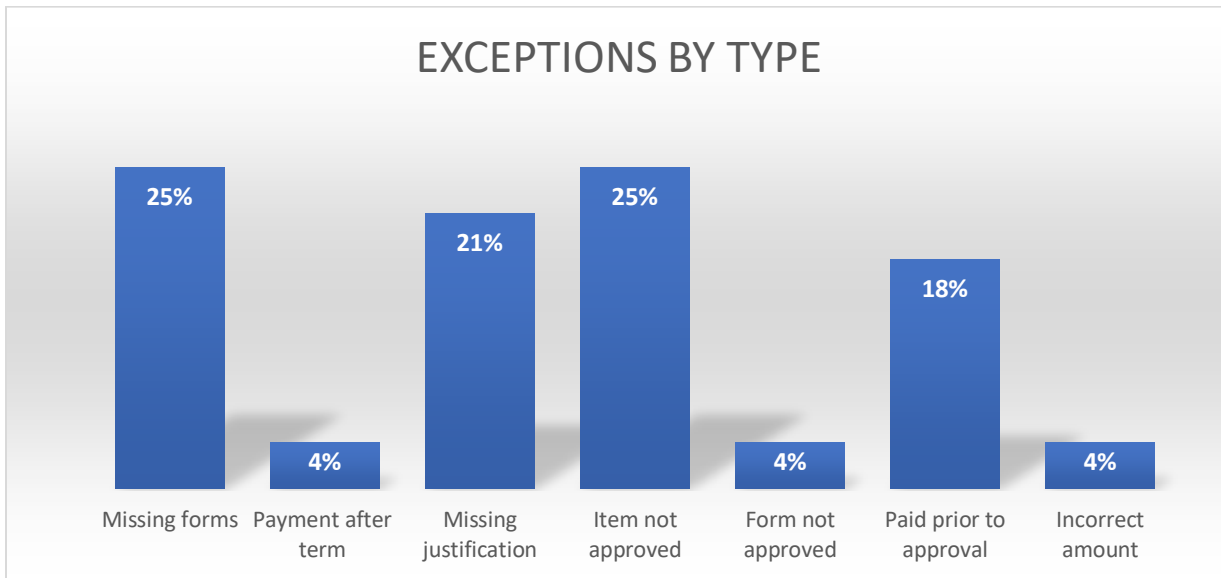
Discussions with management revealed that additional payments have been used as a method to boost employee pay, in lieu of being able to give raises. As a matter of transparency and having market-driven pay scales to attract valuable employees, the City should discontinue the additional payments practice if it is used as a pay rate mechanism, and instead review and adjust pay scales accordingly. This would lend clarity, not increase costs, and have no effect on retirement base pay, as all additional payments are included in retirement cost calculations.

The following table summarizes our sample testing of the additional payment types we deemed highest risk or cost impact (Internal Audit excluded CDL Examiner and Coordinator, Police Field Training, and \$11 and Airport Safety meals, for a total of 18 items and \$4851.60 excluded). The report total dollars is shown to provide an annualized estimate of additional payment dollars in total; figures will change per payroll cycle.

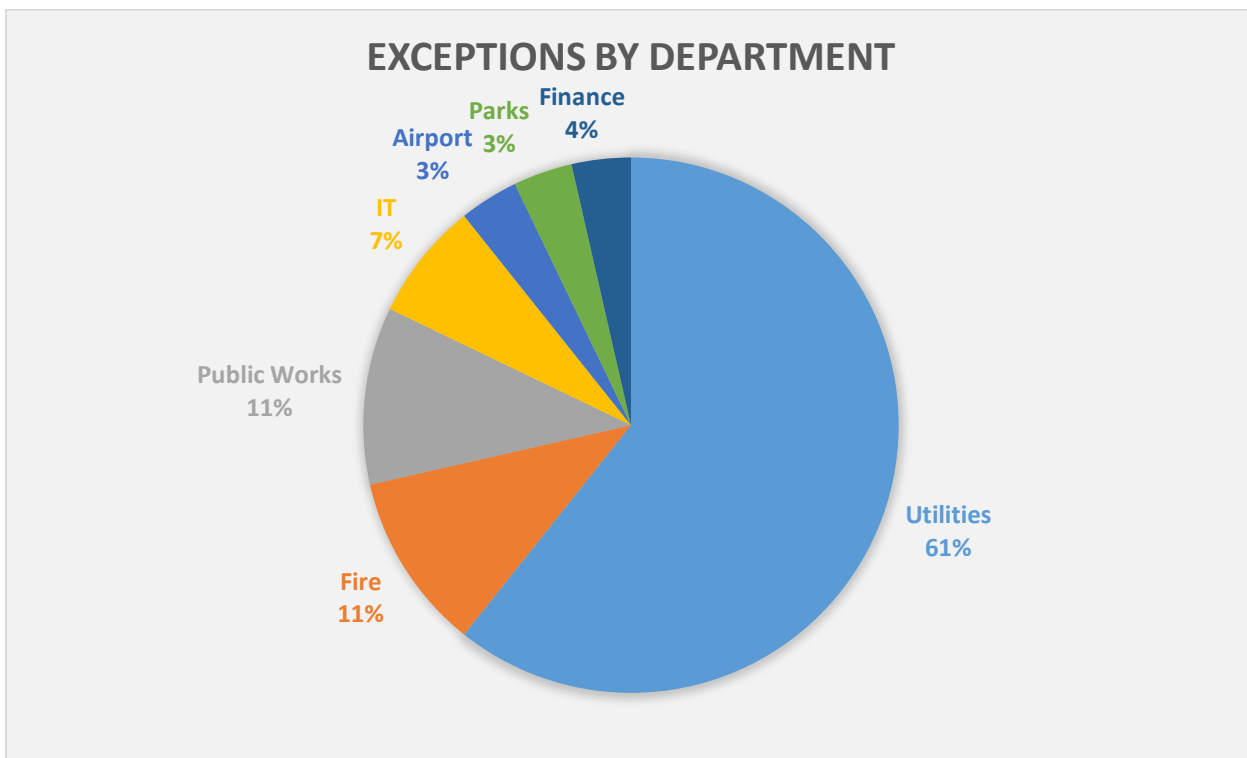
Add Pay Type	Report Total #	Report Total \$	# Tested	% Tested	# Exceptions	% Exceptions
Auto Allowance	84	\$251,616.48	11	13%	2	18%
Jean Allowance	486	\$162,960.00	22	5%	11	50%
Cell Phone Allowance	323	\$148,460.00	31	10%	12	39%
Fire- Meal Allowance	54	\$98,153.16	8	15%	0	-
Protective Footwear Allowance	621	\$92,962.50	30	5%	2	7%
Paramedic Pay	29	\$40,816.16	3	10%	0	-
Police Clothes Allowance	35	\$32,060.00	5	14%	0	-
Fleet Tool Allowance	29	\$23,200.00	3	10%	0	-
Local 773 Outerwear Allowance	267	\$13,337.50	14	5%	1	7%
Protective Eye Wear Allowance	59	\$2,950.00	3	5%	0	-
<b>Total</b>	<b>1987</b>	<b>\$866,515.80</b>	<b>130</b>	<b>7%</b>	<b>28</b>	<b>22%</b>

Internal Audit used Munis to test the above items, including the documentation scanned into the system. We did not continue to pursue missing documentation in departments, as if the additional payment was added to the employee's record, the support for it should have been received in Payroll. We also noted there may be a control issue in record keeping, that documentation was missing and could potentially exist, per discussion with Payroll, but has been lost or erroneously discarded; however, we did not specifically review records management. The exceptions we found included missing or incorrect documentation, payments prior to approval, based on support available, and incorrect payments.

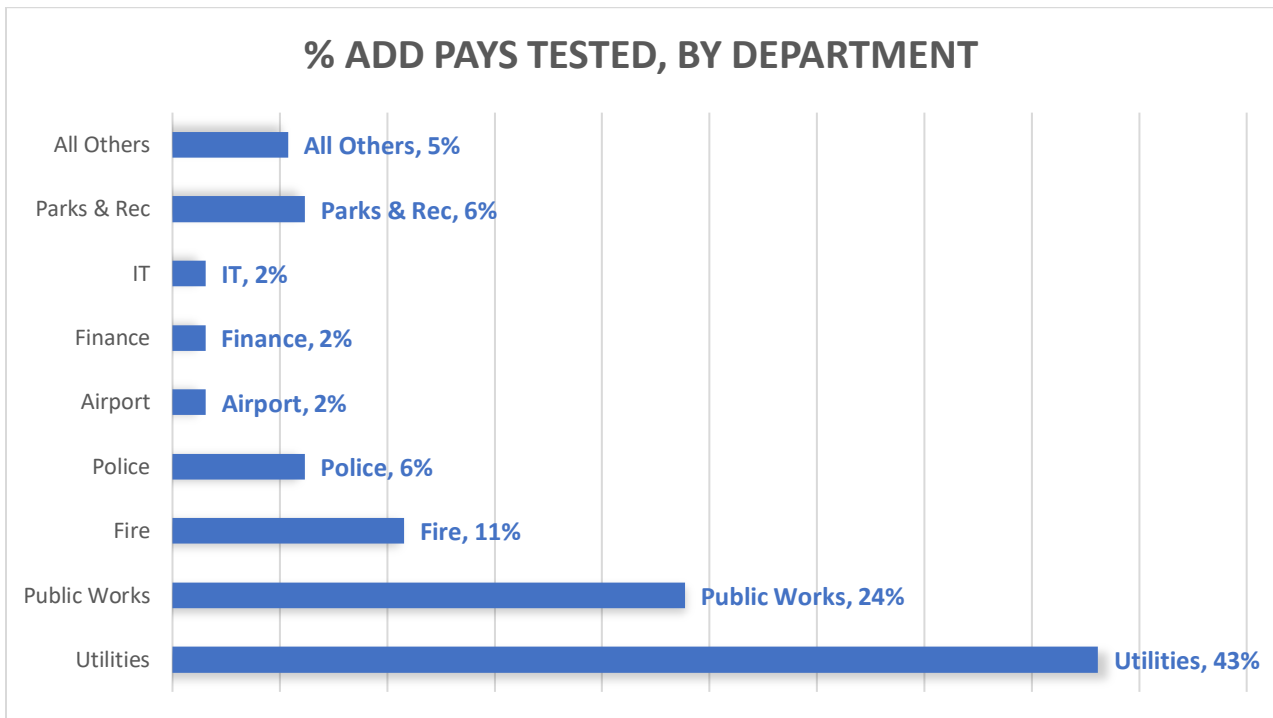
The table below summarizes the exceptions by type, as described previously, for the total 28 exceptions. Each item with an exception had only one type of exception by item (i.e., no items had both incorrect amount and form not approved, for example).



The chart below shows the percentage of exceptions found by department, inclusive of all types of additional payments in our sample.



The following table demonstrates the percentage of all additional payments types tested, by department, to provide a reference for the previous figures.



The charts are shown as additional information because Internal Audit selected departments to interview for additional procedures (Utilities, Public Works, Fire, and Police); additional payments affect the entire City and so any recommendations or exceptions should be considered as applicable to all City departments. The information above also demonstrates that additional payments controls are lacking in departments not further interviewed for this audit.

Finally, although considered outside the scope of this audit, Internal Audit briefly reviewed City-issued cell phones, as to numbers of devices and possible controls, to determine whether a recommendation to use only allowances or only City-issued devices would be applicable, and also to determine if there were additional controls over City-issued devices that could apply to allowances. We determined that it was difficult to ascertain a specific number of City-issued devices, that the information as to costs or assignments was not centralized, and that no stronger controls existed over City-issued devices. We determined that the annual procedure to verify continued need for cell phone allowance was inadequate, and our brief review indicates that were additional controls to be implemented over allowances, City-issued devices verification could also benefit from those controls.

In summary, based on Internal Audit’s testing and professional judgment, the following table demonstrates the risk to the City of issues with each audit objective (meaning both the possible financial/legal risk, as well as perception risk), and the likelihood of issues occurring. The table also presents Internal Audit’s assessment of how high the lack of internal controls is, and finally, the overall level of concern that management should have for each objective, based on a compilation of the three factors. Any item highlighted in red is of more concern than one in yellow or green.

Objective	Risk to City	Likelihood	Lack of Controls	Overall Level of Issue
-----------	--------------	------------	------------------	------------------------

Clear, defined ordinance/policy	High	Medium	Medium	Medium
Payments comply with ordinance	Medium	Low	Medium	Medium
Defined/justified need for payments	High	High	High	High
Calculation/recording of payments	Medium	Medium	Medium	Medium

More detail regarding the issues identified by Internal Audit, as well as recommendations and management response, is presented in the Issues Detail section.

---

## Issues Detail

---

### 1. City ordinances and administrative rules governing additional payments lack clarity.

Internal Audit reviewed the City ordinances in Chapter 19 that are the basis of additional payments, as well as the administrative rules for cell phones, since there is no ordinance regarding cell phone allowances, and found they lacked clarity and were subject to interpretation. We specifically noted the following:

**Section 19-100(a), Meal allowance, job site meal compensation-** the ordinance states that “Eligible fire department employees on a fifty-six-hour week schedule shall be allowed fourteen dollars (\$14.00) per day for meal reimbursements for days actually worked.” The actual practice is to pay Fire Department personnel in advance for meals twice per year, based on days worked in the prior six months, and if the employee leaves service, his or her pay is reduced upon separation for repayment of meals. Thus, the meals are not reimbursements. Additionally, “eligible” is not further defined in ordinance, as to what qualifies eligibility for the meals, other than being a 56 hour per week Fire employee.

**Section 19-104, Tools-** the ordinance is not specific to Fleet Division tools, although in practice the City only assigns tool allowances to Fleet personnel. The ordinance does not specify a dollar limit, although lower-level policies in Public Works define the limit as \$800. Without an ordinance limit or department definition, any department can provide a tool allowance, without restriction. Finally, in practice, any tool(s) purchased with the allowance belong to the employee, but neither ordinance nor policy define the ultimate disposition of such tools.

**Section 19-107, Uniform clothing allowance and personal protective equipment (excluding subsection (c))-** the ordinance leaves all these allowances, except the Local 773 Outerwear allowance (defined as only for those in this union), completely to department discretion, and does not contain language to clarify how these allowances should be assigned in conjunction with department-issued clothing that comes directly from departmental budgets. Per discussion, Internal Audit found that departments do provide clothing of all types to employees, and noted that budget documents contained line items for clothing. We found no lower-level policies which clarified these clothing and gear allowances as to assignment and allotment in conjunction with department-issued clothing.

**Section 19-113(c) and (d), Reimbursement for use of personal vehicles-** the ordinance is not specific as to the circumstances which justify this allowance, nor does it define what circumstances require which level of allowance, and we found no lower-level policies that clarified. Additionally, the ordinance is unclear as to the differences between sections (c) and (d), as to which employees fall under the \$250 maximum, and mileage overage reporting, and which employees are subject to the \$285 maximum monthly allowance.

**Administrative Rules, Cell Phone Allowance-** this is composed of several policies, including a revision, making the entire policy unclear and not concise. Cell phone allowances, of any level, are completely up to discretion, as approved by the department head, without specific guidelines. Finally, the memos describing these rules are not incorporated into the formal Administrative Rules available on the City intranet, revised as of January 1, 2018, although the memos are dated 2013 and before.

If policies are not clear and defined, either in and of themselves or by lower-level departmental policies and procedures, the practice of additional payments will not be consistent across the City, and payments may be made to employees incorrectly, or those whose job functions do not require such payments.

**Recommendation:** The City should review ordinances and other policies with regard to additional payments and consider further clarifying and defining the circumstances under which payments are made, how they are made, and what they cover. This could also include adding Administrative Rules for further definition, so that practices are consistent Citywide.

Alternatively, the City may consider discontinuing certain additional payments and making them reimbursement only, after analysis of staff time potentially spent processing reimbursements. Particularly for automobile expenses and clothing, this may be a reasonable alternative solution.

**Management Response:** A recommendation to issue a one-size-fits-all policy for additional payments that reduces department directors' discretion sounds simple, but the current policy has evolved over time for various reasons. There are many diverse City operations and a policy that covers all of them may not be practical.

Additionally, following the recommendations will create sizable projects requiring time and resource planning.

Therefore, the Interim City Manager will assemble a small task force of department heads (Human Resources, Finance, Utilities, Public Works, and Parks and Recreation) to recommend changes to the current additional payments policies. The scope for the task force will be to clarify which positions are eligible and to what level. Additionally, there must be limits set for all allowances. The deadline for the task force recommendation is September 1, 2019.

## **2. Additional payments process documentation and controls are lacking.**

Internal Audit found that, in addition to a lack of department-level procedures defining which job duties require additional payments and at what level, the departments we interviewed also lacked comprehensive mechanisms to issue and track additional payments. Utilities was beginning to take steps to perform tracking of which employees have additional payments, but procedures in all these departments either do not exist or are lacking. Thus, there is no departmental consistency in how to issue or track additional payments. Also, there is no consistent method, either Citywide or at a department level, to perform ongoing, routine, documented analysis of employees receiving additional payments, to determine whether such payments are still necessary.

Additionally, there is no Citywide administrative rule or procedure, that Internal Audit was able to locate, governing the additional payment process from beginning to end, from an employee assigned pay codes by Human Resources upon beginning employment, to the employee's department assigning additional payments, to how Payroll should approach and process these payments, including when the employee terminates employment. As per our review and interviews, Internal Audit found that Payroll staff was often responsible for determining the validity of an additional payment, when the Payroll function should only be processing the payments, after ensuring that proper support is received, and the payment is mathematically correct.

When defined, documented procedures and controls to support additional payment policies do not exist or are incomplete, the process will be prone to errors and potentially even fraud.

**Recommendation:** The City should consider creating specific processes and controls to support the additional payment ordinances, which would address specific parameters for issuance and payment, tracking of additional payments, and periodic analysis of the positions/employees receiving the payments. This should be done at an Administrative Rule or policy level, rather than departmental level, with input from departments.

If the City were to consider using reimbursements rather than additional payments, this process would still need to be defined and documented, with appropriate controls as necessary.

**Management Response:** Several years ago, the Finance director at the time directed Payroll staff to send a quarterly report to the time keepers which indicated which employees were in the system to receive additional payments. The report was sent out just prior to the next quarterly payment. The intent was that the lists would be distributed by the time keepers to the appropriate supervisors or managers and reviewed for employees who were receiving additional payments and were not entitled to them, as well as employees who should be receiving additional payments and were not. Eventually this practice was discontinued due to non-responsiveness of the departments.

The Interim City Manager will reinstate the quarterly additional payments report as of October 1, 2019 to ensure that department directors are responsible for the accuracy of additional payments.

**Internal Audit Response:** When the review process is reinstated, Finance management should ensure that departments are documenting and signing off, at a management level, on the review. Additionally, documenting the additional payments procedure should still be considered to ensure that all departments follow the same steps to add, delete, modify, and verify employee additional payments.

### **3. Certain additional payments processes are very manual.**

While a manual process may be appropriate to a situation, and not necessarily lacking in controls, Internal Audit found that certain portions of the additional payments process are very manual and not comprehensively documented. For instance, the Fire Department meal allowance is calculated twice per year based on daily entries into a spreadsheet from paper timesheets, entered by one administrative person in the Fire Department, and these entries are calculated into the allowance, based on various inputs as to type of time worked and time taken off. The results are then sent to Payroll, which manually enters the Fire Department meal allowances into the system of record, because the system cannot currently accept parameters to satisfy how the allowance is calculated.

For all departments, the paper Additional Payments Form must be completed, signed by the department director, and routed to Payroll (and an additional form in the case of cell phone allowance). If there are errors or backdating required, or missing justifications, Payroll must follow up with the department, and wait for corrections, while keeping track of the original request. Internal Audit found evidence of errors made in the entry of the additional payments in the past, or additional payments established without justification. In two cases in the sample, the errors had not been caught or corrected in months.

In another instance, paramedic pay, the actual increase in pay cannot be identified in a separate line item on the employee's paycheck, although it has a separate pay code type. The additional amount is built into the employee's hourly rate, via a spreadsheet created by Human Resources, and again sent to Payroll and entered into Munis. Internal Audit was not able to locate any comprehensive procedures that described all these processes, the detail required to complete them, and applicable control points.

The more data entry, paperwork, and various department interaction there is in any given process will increase the chances for errors or omissions, and lack of documentation for a manual process increases the risk of the procedure not being able to be duplicated by others if needed.

**Recommendation:** The City should determine whether the current system of record, Munis, could be used to replace some of the manual processes, or workflow procedures could reduce some of the paper required. City staff should review existing applications or systems, if not Munis, to investigate whether any of the manual calculations processes could be eliminated. Considering a reimbursement basis is another possibility, if the automated processes for other types of reimbursements (such as travel) are already in place.

**Management Response:** The Interim City Manager will have the department heads for Human Resources, Finance, IT, Fire, and Police analyze and address the laborious additional payments process by December 31, 2019.

**Internal Audit Response:** Management may want to consider combining the Internal Audit recommended documentation of the additional payments process in Issue #2 with the above action plan, in order to reduce staff time spent on streamlining and documenting the process.



#### **4. Additional payments are used as a method to supplement employee pay.**

Via discussion with department management, Internal Audit was informed, on several occasions, that additional payments are a way to supplement employee pay, via ordinance-approved methods, as opposed to attempting to get pay raises via budgetary methods (requiring further Council approval). Because, according to discussion, City employees have gone years, in some cases, without cost of living and/or merit pay increases, additional payments are seen as a way to compensate employees more fairly. Discussions with supervisory personnel revealed that, in some cases where employees are provided allowances for clothing, the clothing is torn, or in disrepair, indicative that the payments are not being used as intended.

Although the intent may be good, increasing employee pay via additional payments does not address the underlying issue of competitively paying employees based on market rates, and may skew the pay scales developed in Human Resources and approved via Council action, if City departments are aware that they can provide pay via other mechanisms. Additionally, this method negates transparency, in that the additional pay is supposed to be used for auto expenses, or clothing, or meals, not simply as an addition to paychecks that can ultimately be used for anything.

**Recommendation:** If the underlying intent of issuing additional payments to employees is to supplement pay, rather than to provide extra payments to be used for specific purposes, then the City should discontinue all such payments, with the possible exception of cell phone allowance (since this is generally considered to be a universally owned and used tool). All additional payments should then be provided as reimbursements, in department clothing budgets, or a flat additional hourly rate in the case of meals that are tied to hourly wages paid and reported on timesheets.

**Management Response:** While the audit report contains recommendations suggesting that reimbursement may be a better method than additional payments, in order for reimbursements to be non-taxable, the reimbursement plan must be accountable. This means the City must collect, review, and retain documentation proving that reimbursements are non-taxable, and in some cases, such as street adaptable clothing, payments made to employees are taxable income whether under an accountable plan or not. The City has had accountable plans in the past, and they created a much larger administrative burden than additional payments. Additionally, the City was audited by the IRS in 2011 and had to pay approximately \$65,000 in back FICA taxes and interest for reimbursements made to employees for street adaptable clothing under an accountable plan. However, it should be noted that any additional payments changed to accountable reimbursements would no longer be pensionable income.

The Interim City Manager will have the Human Resources and Finance Directors review current City practice as compared to industry standards, with results targeted for implementation into the FY 2021 budget.

**Internal Audit Response:** While reimbursements may not fit every situation, the City should consider a reimbursement option for non-clothing items, particularly auto mileage.

## 5. Controls over cell phone allowance verification, as well as City issued cell phones, need improvement.

During our review, Internal Audit noted that the only process in place for performing a periodic verification of the cell phone allowance granted to an employee (at any level of cost) was an annual form with each employee's name receiving an allowance, distributed to divisions and departments, and signed by each employee attesting to no change in usage. The form contained only names and signatures, and this verification was formerly completed by Internal Audit, and then the responsibility was transferred to Finance after the former auditor left the City. Simply signing a form (and there is no assurance that the actual employee signed the form for him or herself) is not a sufficient control to determine whether the allowance for cell phone use is still correct or needed at all.

Due to the vague justifications that Internal Audit noted on the cell phone forms during testing, the lack of ordinance addressing cell phone allowances, and the insufficient level of ongoing review, we requested records for City-issued cell phones from Purchasing to determine if City-issued devices were more controlled and therefore a potentially viable option. City-issued devices and plans are obtained via state contracts, so that we were provided records from Verizon, Sprint, and AT&T. While we did not audit the City-issued cell devices or plans, we did note that there does not appear to be any analysis of plan types, costs, or ongoing need for City-issued devices. The data we obtained was in different formats and contained different details, as to the information. Even comparing the names on the plans to the names of those receiving allowances, to determine if there was overlap, was not possible due to devices potentially being issued under an employee's name, but then used by a division or department, by various employees, for job duties. Some devices are assigned to departments in general, or vehicles, which further complicates comparison. Again, review of City-issued devices, as to need or billing, is performed at the department level, and is not consistent between departments.

**Recommendation:** Departments should perform an at least annual review of cell phone use for employees, based on job duties, with ongoing justification as to why the allowance is required, and periodic analyses of position duties requirements overall, as they relate to communication needs. Additionally, each time an employee changes jobs, outside of this annual cycle, his or her need for an allowance should be reviewed, not simply transferred. One contact in the department should be ultimately responsible for ensuring the completion of these analyses, subject to verification and/or audit.

Departments should also institute controls to periodically analyze the use and costs of City-issued devices, be they assigned to an individual or a location, and ensure the ongoing necessity and correct billing of such devices. Departments should also perform analysis of cell phone allowances compared with City-issued devices, where applicable, to ensure the correct method is being used for the particular situation (allowance vs. City-issued). These analyses should also be subject to higher-level verification and/or audit.

**Management Response:** The process for cell phone allowances and provision of cell phones was reviewed in depth several years ago. At that time the City instituted a procedure to require annual authorization of cell phone allowances. This procedure was followed for a short time, but eventually relaxed due to complaints of the time and effort needed to complete the process.

The Interim City Manager will assemble a small task force of department heads (Human Resources, Finance, Utilities, Public Works, and Parks and Recreation) to recommend changes to the current cell phone allowance policies. The scope for the task force will be to clarify which positions are eligible and to what level. Additionally, there must be limits set for all allowances. The deadline for the task force recommendations is December 1, 2019.

**Internal Audit Response:** The task force may want to consider performing an analysis of City-issued cell phones as compared to cell phone allowances to determine if there are any overlaps, or whether using one method or the other, depending upon the situation, may result in efficiencies and/or cost savings.