CITY OF ATLANTA
City Auditor's Office
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Performance Audit:

Employee Reimbursement

Why We Did This Audit

We undertook this audit because we were aware of errors in employee reimbursements. Although the city has partially automated requests for reimbursements through Oracle's Internet Expenses (iExpense) module, matching expense reports to cash advance payments is still a manual process. About 1,800 employees received advances or reimbursements totaling $3.5 million in fiscal year 2014.

We analyzed all cash advances outstanding as of October 10, 2014, and analyzed expense reports and reimbursements from fiscal years 2012 to 2014.

What We Recommended

To strengthen controls over employee reimbursements and compliance with IRS reporting guidelines, we recommend the chief financial officer:

- Enforce all provisions within the city's reimbursement policy.
- Reconcile outstanding advances, where feasible, and report remaining advance as wages.
- Apply a risk-based review of expense reports.
- Limit the circumstances under which advances are needed, such as by using a travel agent or travel card.
- Update mileage rates to be consistent with IRS rate.
- Eliminate employee reimbursements outside of iExpense.
- Remove access to iExpense that is not required by an employee's job functions, and prohibit employees from acting as sole approver of their own expense reports.

What We Found

Weak controls over employee reimbursements create risk of non-compliance with IRS reporting and withholding requirements. IRS guidelines allow employers to issue cash advances to employees or to reimburse employees for business expenses incurred on the job without reporting them as taxable income as long as the employee adequately accounts to the employer for the expenses and returns any excess within a reasonable period of time. As of October 2014, $3.6 million in cash advances to 1,828 past and present city employees was outstanding. The median age of the unreconciled cash advances was 26 months. About 20% of the individuals with outstanding advances were no longer employed by the city. Employees may be unaware that they have outstanding advances because the Department of Finance has not followed its reporting and notification procedures.

We found errors in one-third of a random sample of expense reports that employees submitted for reimbursement or to reconcile a cash advance. Errors included missing receipts, receipts that did not match the amount claimed for reimbursement, and claims for excessive per diems and mileage. City code identifies reimbursable expenses related to travel on city business including limits for per diem to cover meals and incidental expenses, hotel, and mileage at the federal government rates. About 16% of the $2.5 million reimbursed to employees in 2014 was for items apparently unrelated to travel, such as for tuition or business lunches. We've previously recommended that finance add procedures to reimburse employees for business expenses incurred other than when traveling.

We reviewed a judgmental sample of 20 expense reports with identical line items and identified three instances in which employees submitted the same expenses for reimbursement twice.

Finally, we identified two problems related to access controls in Oracle's iExpense module that the city uses to process employee advances and reimbursements. First, some employees were set up in the system to approve their own expense reports. Second, some employees were granted system privileges beyond what was required by their job.