

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**CITY OF MANCHESTER TUITION REIMBURSEMENT PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Prepared by
City of Manchester, NH – Finance Department
Internal Audit Division

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
EMPLOYEE TUITION REIMBURSEMENT ACCOUNT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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**City of Manchester
Department of Finance**

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September 29, 2004

Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Smith, Shea, Guinta, Osborne and Thibaultt

Dear Honorable Committee Members:

A routine pre-audit of bills submitted to the Finance Department for payment revealed several inconsistencies with procedures used in the handling of employee tuition reimbursement. The Internal Audit Manager determined that a review of the Tuition Reimbursement Program in force during fiscal year 2004 was warranted. Based on errors found in the initial review an audit of the expenditures of the program was conducted.

IA's procedures were limited to a financial and compliance audit of the City of Manchester Employee Tuition Reimbursement Program for the fiscal year ended June 30, 2004. The audit procedures began with an evaluation of the internal control structure in place at the City of Manchester over tuition reimbursements, a review of laws, regulations and labor agreements governing the Tuition Reimbursement Program and tests of transactions occurring during the fiscal year ended June 30, 2004.

Conclusion

Based on the test work performed, it appears that the City does not have clearly defined written rules governing the tuition reimbursement program and employee development funds that has led to inconsistent use of these funds. Internal controls over the funds appear to not be working as designed. This breakdown in controls has caused instances of personnel being paid twice for the same course and/or paid in excess of the maximum allowable annual amount. A more thorough explanation of the problems found and recommendations to prevent further errors occurring in the future are found in the report that follows.

Draft observation worksheets and a draft audit report was sent to the Director of the Human Resources Department, the Finance Officer, the Building Commissioner and the Airport Director for their review and comment. The observations generated and the auditee written responses are included on pages eight through nineteen. The auditee's responses indicate disagreement with the report's major findings. The auditees believe that IA has interpreted employee development and tuition reimbursement policy too narrowly. IA appreciates the courtesy and cooperation of the staff and administration of the all the departments contacted on this assignment.

Respectfully Submitted,

Kevin Buckley, CPA
Internal Audit Manager

INTRODUCTION

AUDIT BACKGROUND

A routine pre-audit of bills submitted to the Finance Department for payment revealed several inconsistencies with procedures used in the handling of employee tuition reimbursement. The Internal Audit Manager determined that a review of the Tuition Reimbursement Program in force during fiscal year 2004 was warranted. Based on errors found in the initial review an audit of the expenditures of the program was conducted.

The Finance Officer of the City of Manchester, NH has been designated by state law, city charter and local ordinance with the authority to conduct such examinations and audits.

Our audit was conducted between August 2004 and October 2004 in accordance with standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT SCOPE AND OBJECTIVES

The audit was limited to financial activity of the City of Manchester Tuition Reimbursement Program for the fiscal year ended June 30, 2004. The audit was designed to determine compliance with rules and regulations that govern the City of Manchester Tuition Reimbursement Program and to determine if amounts recorded in the financial records are fairly stated and properly classified.

The results of our testing, observations generated, auditee responses and the Schedule of Financial Activity are included on the following pages of this report.

BACKGROUND OF TUITION REIMBURSEMENT PROGRAM

Tuition reimbursement has been a long-standing benefit of employees of the City of Manchester. This benefit is available to all regular, full-time and regular, part-time (on a pro-rated basis) employees, on a first-come, first served basis. All employees who have completed six months of continuous service are eligible. The exact amount of reimbursement allowed is determined by the employee's union agreement. In general the City will reimburse up to 75% of the cost of tuition and supplies. Fifty percent of the allowable amount is disbursed prior to the course commencing with the remainder being disbursed upon successful completion of the course. TABLE 1 summarizes the various tuition benefits in force during fiscal year 2004 per union agreements in effect during the audit period:

TABLE 1
EMPLOYEE TUITION REIMBURSEMENT BENEFIT MATRIX FY 2004

Bargaining Unit	FY 2002 # Employees Covered	Maximum per Course	Annual Maximum per Employee	Annual Maximum per Bargaining Unit
Non-Affiliated	345	NA	\$1,060	\$31,500
Teamsters (Library)	23	NA	1,060	(1)
MPPA (Police Officers)	173	NA	860	9,000
MAPS (Police Supervisors)	43	NA	900	5,000
PDSS (Police Staff)	56	NA	1,200	6,000
Teamsters (Airport)	36	NA	1,050	1,500
IAFF (Fire Fighters)	239	NA	900	9,000
MAPS (Fire Supervisors)	6	NA	1,500	3,000
AFSCME (Master Agreement)	245	NA	825	17,200
AFSCME (Health)	45	900	MPH 1,400 Masters 1,060 Bachelors 900	(2)
AFSCME (PBS/BMD)	10	NA	825	8,970
USWA (Water)	64	NA	\$1,270	No Limit
TOTAL	1,285			\$91,170

Source: Employee Benefit Matrix from City Negotiator

- (1) Non-Affiliated and Teamsters (Library) share the same annual maximum per bargaining unit amount of \$31,500.
- (2) AFSCME (Master Agreement) and (Health) share the same annual maximum per bargaining unit amount of \$17,200.

The amount of expenditures paid out from the Tuition Reimbursement Program has been decreasing in the last three years. Actual expenditures for the City of Manchester Tuition Reimbursement Program were \$56,862, \$47,303 and \$41,461 for fiscal years 2002, 2003 and 2004 respectively.

During fiscal year 2004 eighty-one employees from almost every department took advantage of the program as noted in TABLE 2 on the following page. The Health Department had the most employees participating (31, includes 2 non-affiliated) followed by the Fire Department (20, includes 1 non-affiliated).

TABLE 2
EMPLOYEE TUITION REIMBURSEMENT BY BARGAINING UNIT FY 2004

Bargaining Unit	# Employees Reimbursed	FY 2004 Expenditures
Non-Affiliated	16	\$ 12,824
Teamsters (Library)	1	302
MPPA (Police Officers)	6	2,885
MAPS (Police Supervisors)	0	-0-
PDSS (Police Staff)	1	958
Teamsters (Airport)	2	2,512
IAFF (Fire Fighters)	19	8,046
MAPS (Fire Supervisors)	0	-0-
AFSCME (Master Agreement)	7	3,214
AFSCME (Health)	29	6,193
AFSCME (PBS/BMD)	4	1,028
USWA (Water)	2	3,500
TOTAL	87	\$ 41,462

Source: INFYSYS Standard Report, Working G/L Report, Object code 270

Payments for tuition reimbursement are posted to object code 0270 in the accounting system. In addition to tuition reimbursement, departments budget funds for employee development. The Tuition Reimbursement Program is mainly used for courses leading to a college degree. Employee development is used to pay for courses, conventions, seminars and meetings that are directly related to an employee's job function. Many of the employee development activities are a requirement of the job or to fulfill requirements of a professional designation such as CPA or RN. The City pays 100% of these expenses and each employee is limited only by the department's budget. Employee development is accounted for under object code 0271 in the HTE system. The City spent \$101,070, \$73,716 and \$82,043 during fiscal years 2002, 2003 and 2004 respectively as shown in TABLE 3 on the following page.

The amount of employee development funds allocated in the original budget has also been decreasing steadily in the past three years. The total amount budgeted for employee development was \$101,110, \$94,650 and \$90,650 for fiscal years 2002, 2003, and 2004 respectively. In order to help departments meet their employee development goals the Human Resources Department has allowed employees to apply for tuition reimbursement to cover activities normally paid for with employee development funds. The amounts expended in TABLE 2 include these amounts.

In addition, as noted in OBSERVATION 2, three employees have used employee development funds to cover tuition reimbursement when they reached the annual limit of reimbursements allowable. This amounted to \$5,761, \$9,946 and \$6,975 of tuition being paid with employee development funds in fiscal years 2002, 2003 and 2004 respectively.

**TABLE 3
EMPLOYEE DEVELOPMENT EXPENDITURES BY DEPARTMENT**

Fund	Department	FY 2002	FY 2003	FY 2004
100	Building	\$ 1,185	\$ 2,663	\$ 130
100	City Solicitor	\$ 1,670	\$ 620	\$ 830
100	Finance	\$ 8,781	\$ 6,122	\$ 4,155
100	Information Systems	\$ 20,736	\$ 15,776	\$ 22,195
100	Mayor	\$ 25	\$ -0-	\$ -0-
100	Human Resources	\$ 2,759	\$ 1,175	\$ 1,801
100	Planning	\$ -0-	\$ 805	\$ -0-
100	Tax	\$ 540	\$ 245	\$ -0-
100	Police	\$ 17,668	\$ 8,114	\$ 19,063
100	Health	\$ 2,850	\$ 188	\$ 895
100	Highway	\$ 4,053	\$ -0-	\$ -0-
100	Welfare	\$ 302	\$ -0-	\$ -0-
100	Parks	\$ 1,240	\$ 1,640	\$ 425
100	Library	\$ 5,395	\$ 509	\$ 173
801	Environmental Protection Division	\$ 2,570	\$ 3,223	\$ 1,744
803	Water	\$ 3,289	\$ 1,899	\$ 3,260
805	Aviation	\$ 28,007	\$ 29,517	\$ 26,397
807	Parks	\$ -0-	\$ 220	\$ 330
808	Aggregation	\$ -0-	\$ 1,000	\$ 645
	TOTAL	\$ 101,070	\$ 73,716	\$ 82,043

Source: INFYSYS Standard Report, Working G/L Report, Object code 271

The Internal Revenue Service, since calendar year 2002, allows up to \$5,250 in graduate school related expenses paid by educational assistance programs to be excluded from gross income. Two employees were paid in excess of \$5,250 in calendar year 2002 (one of who has repaid for a double payment and no longer is over) and one of these employees was paid in excess of \$5,250 in calendar year 2003. Both of these employees had charged tuition reimbursement to both the tuition reimbursement account as well as employee development. IA feels that this led to the Human Resource Department not reporting the excess amount as income on the employee's W-2 as discussed more fully in OBSERVATION 6.

AUDIT PROCEDURES

IA reviewed available policies and procedures used to control the City of Manchester Tuition Reimbursement Program as well as union contracts in force during fiscal year 2004.

IA documented and evaluated internal controls over the processing of tuition reimbursements. The initial evaluation determined that controls were adequate, however, testing revealed three overpayment errors that the system failed to catch.

Detail reports were run from the INFYSYS general ledger for all object code 270 (tuition reimbursement) payments and all object code 271 (employee development) transactions for fiscal years 2002, 2003 and 2004. Analytic review procedures were performed to identify problem areas. Tuition reimbursement expenditures were sorted by employee and all employees who were close to or over the individual maximum annual reimbursement in fiscal year 2004 were selected for detail testing. A random sample of five employees was selected from the remaining population.

Expenditures were traced to tuition reimbursement request form. Amounts were recalculated and proper approvals were noted.

The HTE vendor file was searched for each employee to determine if any additional tuition payments were made directly to the employee for tuition payments under a different object code.

Object 271 expenditures for the employee's department were examined to determine if any other tuition payments were made on the employee's behalf during the fiscal year. A sample of 20 random object 271 expenditures (judgmentally selected) was examined to ensure that the expenditure was for a non-degree program.

Due to errors found in our initial sample testing was extended to fiscal years 2002 and 2003.

The observations and recommendations generated as a result of the test work performed are presented on the following pages along with the auditee's written responses.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1: INTERNAL CONTROLS OVER TUITION REIMBURSEMENT DO NOT APPEAR TO BE WORKING AS DESIGNED

Observation:

When an employee applies for tuition they fill out a Tuition Reimbursement Request. The form consists of four copies. There are boxes that must be filled in to gather all the necessary information that is needed to correctly calculate the amount the employee is eligible to be reimbursed. There are boxes for employment status, union affiliation, courses taken, cost and approval signatures. At the bottom is a section to calculate the 75% reimbursement and the 50% advance. To the right of the calculation is a box to record the first and second payments. All this is set up to ensure that payments are correctly approved, calculated and paid only once.

In addition the HR Department records the request and payments on an excel spreadsheet to ensure that each employee does not exceed the maximum allowed per year. The paperwork is included with the request for payment to the Finance Department who checks the request prior to payment.

When the City was on a calendar year basis labor contracts were negotiated on the same calendar year basis. Currently the City uses a fiscal year that starts July 1st and ends June 30th. Since the City started using a fiscal year all union labor agreements are negotiated on a fiscal year basis, however, in a majority of the agreements annual changes such as increases to the maximum amount of tuition reimbursement allowed are still negotiated on a calendar year basis. For example a fiscal year 2005 union contract calls for an increase in the maximum allowed for tuition reimbursement from \$1,000 to \$1,200 per employee, per calendar year. The contract takes effect July 1, 2004. This could cause confusion when an employee takes a course in the spring of 2004 and another in the fall of 2004. Is the employee entitled to reimbursement up to \$1,000 or \$1,200? What if an employee takes a summer course that starts in June and ends in August?

In fiscal year 2004 ninety-eight employees applied for and received tuition reimbursement payments. During fiscal year 2003 ninety-three employees applied and received this benefit. As more fully discussed in OBSERVATION 4, three employee requests processed exceeded the maximum annual amount allowed during fiscal year 2004 (3%) and six in fiscal year 2003 (6%). In one instance an incorrect maximum annual amount was posted to the spreadsheet used to track payments. In the other cases it appears that payments were not posted to the spreadsheet.

As further explained in OBSERVATION 3, employees were paid twice for the same course on three different occasions during the period from fiscal year 2002 through fiscal year 2004. This represents less than 1% of the 310 employees participating in the program during that three year time period.

These were all cases of where the internal controls in place at the time failed to detect and prevent the errors from occurring.

Recommendation:

The current system of internal controls should have been sufficient to prevent all of the errors noted in this report. It appears that a general breakdown in the controls had occurred at both the Human Resources Department and the Finance Department. In order to improve the system the following steps should be taken.

- The Human Resource Department should develop written policies and procedures that clarify the rules governing the tuition reimbursement program. These written policies and procedures should include annual maximums allowed for non-affiliated employees and be approved by the Board of Mayor and Aldermen.
- The City Negotiator should correct all the labor contracts as soon as possible so that all references to calendar year are changed to fiscal year.
- The Finance Department should only process reimbursement requests that are presented on original pages of the tuition reimbursement request form. Consistency in the page of the form submitted should be used so that, for example, the pink copy is submitted with the first request and the yellow copy is submitted with the final requests. All sections should be completed and appropriate documentation attached to the final request to ensure that the course was completed in accordance with the policy. Any deficient requests should be returned.
- The spreadsheet used at the Human Resources Department to track each employee's payment history should be updated annually for any changes to the program. A second person should check to ensure that all the annual maximum allowances agree to the most recent contracts.

Auditee Response

Human Resources

The City Negotiator is writing to the five unions that are currently on a calendar year for tuition reimbursement. The City Negotiator is requesting a side agreement that would convert the tuition reimbursement to a fiscal rather than the current calendar year. This is a negotiable item and the unions may or may not agree to this conversion. Tuition reimbursement was negotiated many years ago.

A proposed tuition reimbursement policy was forwarded to the Human Resources and Insurance Committee (HRIC) on September 28, 2004 for review and approval at the HRIC meeting, which was held on October 5, 2004. The proposed policy is being reviewed by the Finance Director, the City Solicitor, and the Human Resource Director. Once a policy is approved by the Board of Mayor and Aldermen, procedures will be established to reflect the policy and the collective bargaining agreements.

Finance Department

See ATTACHMENT 2

OBSERVATION 2: CIRCUMVENTING TUITION REIMBURSEMENT RULES BY USING EMPLOYEE DEVELOPMENT FUNDS

Observation:

Tuition reimbursement is a benefit to all regular, full-time and regular part-time (on a pro-rated basis) employees. The City of Manchester appropriated \$116,000 in the Human Resources Department's (HR) budget in order to fund this benefit for the year ended June 30, 2004. HR processes and pays for all requests for tuition reimbursement. The tuition reimbursement program is used to help pay for college classes that lead to a degree program. The City pays 75% of the cost of tuition, books and fees up to maximum annual amounts per employee and per bargaining unit. The amounts vary among the various unions and non-union employees.

The City of Manchester also had appropriated \$90,650 for staff development in the fiscal year 2004 budget. Staff development is used to pay for individual classes, seminars and other training directly related to an employee's job function. Funds are used not only to enhance job performance but also to meet requirements of professional certifications required for certain job classifications. The City pays 100% of the cost of staff development.

The tuition reimbursement budget is set, in part, to cover the annual maximum allowed per union as set forth in the labor agreements. In the last few years it appears that these annual maximums are not being used leaving the program with an excess of funds at year-end. Because of budget constraints staff development money for some departments is just barely enough to cover certification requirements, courses and seminars that would be beneficial to the department's employees. In response to this the HR Department allows departments that are running short of employee development funds to have employees apply for tuition funds to cover training. The reimbursement is subject to the same 75% limits and other requirements as regular tuition reimbursement.

It appears that some departments are relying on tuition reimbursement to supplement their budgets. From a sample of expenditures examined from the tuition reimbursement line item several were for expenditures that would more appropriately be paid from the employee development line item. In fiscal year 2004 most departments did not expend their entire budgeted amount of employee development and yet many applied and were allowed to use tuition reimbursement funds for this purpose.

Our testing of the tuition reimbursement program revealed three employees during the last three fiscal years (2002 through 2004) used the employee development or conference object codes to pay for college courses after they reached the maximum amount allowed in the tuition reimbursement account. This is out of a population of 310 employees who received tuition reimbursement during the three years. By using staff development funds the individuals were able to circumvent the maximum allowable tuition reimbursement per individual and/or the 25% employee share of expenditures. The amount of employee development funds used to pay for degree programs ranged from \$750 to \$15,047 per employee over the three-year period.

Recommendation:

The HR Department should develop a written policy that limits the amount of employee development activity that can be reimbursed from the tuition reimbursement line. If it is HR's intention to supplement the lack of employee development funds with tuition reimbursement funds then HR should ensure that departments are using all staff development money before charging staff development to tuition reimbursement.

The City should amend the existing policy that governs the tuition reimbursement program to make it clear that staff development is not to be used to circumvent the rules governing the tuition reimbursement program. The revised policy should also clarify what kind of courses are eligible for the tuition reimbursement program and which should be charged to staff development. Staff development funds should never be used to supplement an employee's tuition reimbursement.

Auditee Response:

Human Resources

As I have stated in other responses to the audit, there is no policy for non-affiliated employees regarding tuition reimbursement. There is language in the Chart of Accounts from 1996. This language states that "spending at departmental supervisor's discretion for courses directly related to one's employee skills and not limited by tuition reimbursement policies."

There are budgets for all tuition accounts. Collective Bargaining agreements have been negotiated to set the total for those budgets as well as the maximum amounts that employees may be reimbursed from the tuition reimbursement account.

I am unable to find any definitions for utilization of the non-affiliated monies for staff development, college course or other training other than the general statement in the 1996 Chart of Accounts.

One of the employees mentioned is employed in the Human Resources Department. She is working on her degree in Human Resources concurrently with attaining her certification in Human Resource Management. I have essentially instructed her to continue with her education in our profession to allow her to increase her responsibilities within this office. When she signed up for the May June classes, I authorized payment for that class because it is part of the requirement for her Human Resource Management Certification which would come under the umbrella of staff development and be payable at 100%. The Finance Department unilaterally stopped the reimbursement to the employee for a class she had already completed. No discussion occurred between myself and any representative of the Finance Department. I did meet with the Finance Director in an attempt to resolve this issue. The Finance Director initiated an audit of tuition, which is fine. However, he refused to pay the tuition from 2004 and deducted the May/June tuition from 2005. To date, the Finance Director has not provided me with any explanation of his reasoning. Due to the fact that there is not a tuition reimbursement policy and there is authority to pay for classes pursuant to the Chart of Accounts, I do not believe this office circumvented any rules or polices.

It is my understanding that the Airport Director was authorized to make the payments on behalf of his employee by the former Human Resources Director. The Airport Director will be responding to this audit as well and I am sure he will be able to provide the auditor with documentation to support these payments.

If in fact it is determined that the former Director of Human Resources should not have authorized the Airport Director to make the payments on behalf of his employee, it would seem that the employee took the classes in good faith and never was told he would have to reimburse the City. Therefore, I do not support the Finance Department seeking reimbursement of the payments for his classes. If there had been a clear policy in force at the time the original request was made, there would not be any confusion at this juncture. It seems quite unfair to penalize any employee for the failure of management to establish a policy with rules and regulations.

Aviation

See ATTACHMENT 1

Building Department

In December of 2000 I approached then Human Resources Director Mark Hobson, and discussed the utilization of tuition reimbursement funds to defray some of the costs associated with the pursuit of advanced degrees by senior management employees. In this specific case, the course of study was determined to be consistent with a specific Employee Development Plan and directly related to the employee job function. The H. R. Director indicated that he felt that this

program would be a complementary fit with the city's efforts to enhance the value of the contribution of its managers. The H. R. Director informed me that he would support fully the use of tuition reimbursement funds, and he further recommended that I should utilize any funding in my departmental budget that was available to reimburse any costs not paid by the tuition reimbursement program. He indicated that since this was directly related to a specific Employee Development Plan it was appropriate for this approach to be utilized. The H. R. Director indicated this was an accepted practice that had been employed by other departments.

As a result of my investigations, I believed that I was authorized (in fact encouraged) to reimburse for coursework successfully completed, within departmental budgetary limitations. While reimbursement was not sought for all courses and expenses, I did endorse requests that in some cases totaled 100% of some individual course costs. The funds for these reimbursements were made from the tuition reimbursement account (270 account) as well as other departmental funds that were budgeted for professional development.

While no policy for tuition reimbursement apparently exists for non-affiliated employees, the City of Manchester Chart of Accounts does provide guidance regarding the discretion ascribed to the department head in the spending of professional and staff development funds. This language stipulates only that spending is at the discretion of the departmental supervisor for courses directly related to an employee's skills and is not limited by tuition reimbursement policies. As a result, I do not agree that the Building Department circumvented any rules or policies.

Finance Department

See ATTACHMENT 2

OBSERVATION 3: DOUBLE PAYMENT OF TUITION REIMBURSEMENT

Observation:

A Water Department employee requested reimbursement for two courses she took between the dates of 1/20/04 and 5/22/04. Total cost of the courses and materials was \$2,713. Seventy-five percent of this amount would exceed the annual maximum allowed so she was approved for the maximum amount of \$ 1,270. The policy over the program allows for 50% to be paid prior to the course and 50% after proof of completion of the course. The Human Resource Department advanced the entire amount of \$1,270 in violation of this policy with a check dated 2/15/04. On 2/20/04 Human Resources requested another check for \$635 for this course thinking that they had not processed the previous check. A second payment was issued on a check dated 2/26/04. At the end of the course upon proof of course completion a third check dated 7/15/04 for what HR thought was the remaining \$635 was issued. This resulted in the employee being reimbursed twice for the same course. Total overpayment was \$1,270.

An employee of the Building Department pursued a master's degree from UNH Manchester between June of 2001 and January of 2003. His tuition payments were split between the tuition reimbursement account, employee development object code, and conferences object code. It appears that due to confusion caused by splitting his payments between three different accounts, three out of the seven classes reimbursed were overpaid. The total amount of overpayment was \$1,030.

Recommendation:

The Human Resources Department should take steps to strengthen its internal controls over the processing of tuition reimbursement requests. If they had looked at a vendor inquiry in HTE they would see that they had an outstanding check for the Water Department employee in the system.

The Finance Department processed the second payment to the Water Department employee based on a photocopy of the reimbursement form. Checks should only be processed using original documentation.

Tuition reimbursement should not be charged to other object codes.

The Human Resources Department should process all tuition reimbursement payments so they can effectively track the payments.

The City should seek reimbursement for the overpayments. As of the report date the Water Works and Building Department employees have agreed to pay back the payments that were made in error.

Auditee Response:

Human Resources

A review of Human Resource records indicates that the employee at the Water Department was overpaid for her tuition reimbursement.

This probably happened in part, due to the fact that the Finance Department assigned two separate Vendor numbers to the employee. When staff checked to see what she was reimbursed for, the actual amount that had been paid was spread over two separate numbers. Consequently, based upon the fact that there were two separate accounts for the employee, it did not appear that she was going to be overpaid.

The employee has graciously agreed to make weekly payments to Human Resources to rectify the overpayment.

Internal Audit Clarification

The entire amount of the payment for the class and the subsequent double payment were made under only one of the vendor codes. The second vendor code was charged for a class taken in the prior year.

Water Department

MWW has confirmed the duplicate payment with the individual. After reviewing the documentation, she has agreed to contact the HR Dept and to work out a repayment plan for the full amount of the over payment. MWW will follow up with the employee to confirm contact with HR.

As payments are issued directly to the employee, MWW was unaware of the error.

Building Department

A comprehensive review of records associated with the disbursement of tuition reimbursement and staff development funds reveals that partial overpayments were made totaling \$1,030. These overpayments were not discovered at the time due in part to the time lapse between the filing of the tuition reimbursement request and the disbursement which took place some five to six months later. The Building Department agrees with the auditor's findings in the matter of overpayment. As a result, reimbursement for 100% of the overpayment has been made to the Finance Department.

Finance Department

See ATTACHMENT 2

OBSERVATION 4: INCORRECTLY CALCULATING MAXIMUM ALLOWABLE

Our testing revealed nine instances where the maximum allowable tuition reimbursement was incorrectly used resulting in over payment to employees.

According to the labor agreement in force for one employee, reimbursement is limited to \$1,050 per employee per year with a maximum of \$1,500 for the Department per year. The \$1,500 per bargaining unit per year maximum was used as the individual per year maximum amount. This error caused the employee to be overpaid by \$450 in both fiscal year 2004 and fiscal year 2003.

Another employee attended a course costing \$627. Courses are reimbursed at 75% of the cost of tuition and supplies or in this case \$470. Her reimbursement was incorrectly calculated at \$523. This error caused an overpayment of \$53 in fiscal year 2004.

Five other employees were paid in excess of the annual maximum allowed by a total of \$2,691 during fiscal year 2003. It appears that these errors may have been caused by an employee not recording payments to the control spreadsheet.

Recommendation:

When negotiating the labor agreements references to calendar year should be avoided and all changes should be made to coincide with the City's fiscal year to help avoid any confusion.

The Human Resources Department should take greater care in calculating the maximum amount of reimbursement allowed.

The Finance Department accounts payable section should be familiar with the agreements and check the calculations prior to processing the payment.

Auditee Response:

Human Resources

Five of the collective bargaining agreements state that maximum amount of tuition reimbursement per employee is based upon a calendar year. This has been very difficult to manage when the remainder of the tuition accounts, and all other accounts, are based on the normal fiscal year. The City Negotiator, is writing to the five unions requesting a side agreement to convert their accounts from the calendar year to the fiscal year. This is a negotiable item and the unions affected do not have to agree to this proposal.

The Aviation contract provides for \$1,050 maximum tuition per year. The total budget for Aviation is \$1,500 per tuition year. Only one employee requested reimbursement from this account during the audit period. Apparently the numbers were transposed when calculations were being done.

Human Resources tuition reimbursement is funded in the non-affiliated budget. The alleged overpayment for the Human Resources employee was addressed prior to this audit. I am not clear why it is part of this document when the issue was already addressed with the Finance Department.

Further, there is no policy for tuition reimbursement for non-affiliated employees that has been approved by the Human Resource and Insurance Committee or the full Board. What does exist is published in the City of Manchester Chart of Accounts Object Categories/object classes/Objects. That states the following:

“STAFF DEVELOPMENT: Spending at the departmental supervisor’s discretion for courses directly related to one’s employee’s skills and not limited by tuition reimbursement policies.”

Based upon the only language that is documented for tuition/employee development, HR paid the tuition for our employee.

A Tuition Reimbursement policy has been presented to the Human Resource and Insurance Committee. The proposed policy was submitted on Tuesday, September 28, 2004. Finance requested that the proposed policy be tabled for further review by the Finance Director, the City Solicitor and the Human Resource Director at the October 5th meeting of the Human Resource and Insurance Committee.

Internal Audit Clarification

The chart of accounts is not a policy document that authorizes the spending of funds, it is only the definitions used in order to properly classify and report expenditures in the financial statements of the City.

Finance Department

See ATTACHMENT 2

OBSERVATION 5: NON-AFFILIATED RULES CURRENTLY IN USE NOT APPROVED BY BOARD OF MAYOR AND ALDERMEN

Observation:

Currently non-affiliated employees are allowed reimbursement for tuition of 75% of the cost of the course up to an annual maximum amount of \$1,060 per employee. When researching the history of the tuition reimbursement program it was noted that when the Yarger Decker study was conducted in 1998 and implemented in 1999 an attempt was made to equalize benefits throughout the City. Prior to Yarger Decker some departments provided 100% reimbursement and some only 50%. The maximum annual allowable also varied from department to department. Non-affiliated employees were reimbursed at the lower end of the maximum allowable at \$850 per year. At that point a new policy was instituted for non-affiliated employees raising the maximum to the current \$1,060 per employee and limited the reimbursement to 75% of the cost of tuition and supplies. No evidence can be found however, that the Board of Mayor and Aldermen ever approved the change.

Recommendation:

The Human Resources Department should prepare written policies and procedures for the non-affiliated employees for submission to the Board of Mayor and Aldermen for approval. This would also be a good time to clarify the policy as to what type of courses would be allowed for reimbursement from the tuition reimbursement program and what should be charged to staff development. The HR Department also allows Departments to submit staff development expenditures for reimbursement from the tuition reimbursement program if the department is short on staff development funds. Procedures should be developed as to when and how this is allowed as part of the new policy that is submitted for approval.

Auditee Response:

Human Resources

I have prepared a proposed policy for the non-affiliated employees for tuition reimbursement. The proposed policy was sent to the Human Resource and Insurance Committee (HRIC) on September 28, 2004 for the October 5, 2004 meeting. The proposed policy states that approval for courses/degree programs must be for classes that are related to the employee's current position. The Department Head has the right to deny the request. If the Department Head approves the request, it is to be forwarded to the Human Resources Director. The Human Resources Director also evaluates the application to ensure that the course/class is related to the employee's current position. If it is determined to be related and will enhance the employee's performance, it will be reimbursed at 75% of the cost of the tuition, books and applicable fees.

The HRIC tabled the proposal at the request of the Finance Director who wished to study the proposal. He asked that the Committee give him, the City Solicitor and the Human Resources Director an opportunity to meet and study the proposed policy. The study is to be completed before the next HRIC meeting.

I would note however, that currently there is not a policy for tuition reimbursement for the non-affiliated employees. Although the auditor states that in 1998 during the implementation of the Yarger Decker study the maximum of \$1060 was approved by the Board for reimbursement, there is no documentation to support approval of \$1060 per employee. In fact, the proposal that was part of the Yarger Decker study dealt with increasing the tuition reimbursement budget by 30% in fiscal year 2001 and another 15% in fiscal year 2002. If that had been approved, the current budget for tuition reimbursement would be \$37,375. The current budget is \$29,500 which it has been for several years.

As stated in another audit response, the only language that has been approved by a committee of the Board is stated in the Chart of Accounts in 1996. That language states: "Spending at departmental supervisor's discretion for courses directly related to one's employee skills and not limited by tuition reimbursement policies."

No one in the Human Resources Department knows where the \$1060 limit came from. The City Clerk's Office has researched this as well and has not been able to find any documentation.

Finance Department

See ATTACHMENT 2

OBSERVATION 6: TUITION REIMBURSEMENT TAX REPORTING

Observation:

Per IRS Publication 970, if an employer pays more than \$5,250 for educational benefits in one year that amount over \$5,250 is a taxable benefit that should be included in the employees wages as income on the W-2. The City reimbursed two employees over \$5,250 in calendar year 2002 and one in calendar year 2003 without including the benefit on their W-2s.

One employee was paid \$11 more than the maximum nontaxable benefit during calendar year 2002 and a second employee was paid \$1,019 and \$1,183 over the nontaxable limit for calendar years 2002 and 2003 respectively. The employee who was overpaid by \$11 was also partially double paid for a course. When that double payment is repaid he will be under the reporting limit.

Recommendation:

It appears that this error was caused by posting tuition reimbursements to more than one object code, which makes it difficult to determine if an employee has been reimbursed over the maximum allowable. All tuition reimbursement should be processed through the HR Department and posted to the correct object code. The HR department can then run a report by vendor and object code each year to determine whom, if anyone has exceeded the limit.

Auditee Response:

Human Resources

No Response

Finance Department

See ATTACHMENT 2

SCHEDULE OF TUITION REIMBURSEMENT AND EMPLOYEE DEVELOPMENT

FISCAL YEAR ENDED JUNE 30, 2004

DEPARTMENT	TUITION REIMBURSEMENT	EMPLOYEE DEVELOPMENT	TOTAL
Public Building Services	\$ 75	\$ -0-	\$ 75
Tax	\$ 260	\$ -0-	\$ 260
Library	\$ 302	\$ 73	\$ 475
Environmental Protection	\$ 466	\$ 1,744	\$ 2,210
Building	\$ 668	\$ 130	\$ 798
Mayor	\$ 900	\$ -0-	\$ 900
Building Maintenance	\$ 953	\$ -0-	\$ 953
Ordinance Violation	\$ 958	\$ -0-	\$ 958
Finance	\$ 1,192	\$ 4,155	\$ 5,347
Planning	\$ 1,244	\$ -0-	\$ 1,244
Human Resources	\$ 1,399	\$ 1,801	\$ 3,200
City Clerk	\$ 1,412	\$ -0-	\$ 1,412
Information Systems	\$ 1,509	\$ 22,195	\$ 23,704
Highway	\$ 2,748	\$ -0-	\$ 2,748
Police	\$ 2,885	\$ 19,063	\$ 21,948
Water	\$ 3,500	\$ 3,260	\$ 6,760
Airport	\$ 3,572	\$ 26,397	\$ 29,969
Health	\$ 8,313	\$ 895	\$ 9,208
Fire	\$ 9,106	\$ -0-	\$ 9,106
City Solicitor	\$ -0-	\$ 830	\$ 830
Parks and Recreation	\$ -0-	\$ 755	\$ 755
Aggregation	\$ -0-	\$ 645	\$ 645
TOTAL	\$ 41,462	\$ 82,043	\$ 123,505

SOURCE: HTE INFYSYS Standard Report, Working G/L Reports, Object codes 270 and 271

**COMPARATIVE SCHEDULE OF TUITION REIMBURSEMENT
BY DEPARTMENT
FISCAL YEARS ENDED JUNE 30, 2002 THROUGH 2004**

DEPARTMENT	2002	2003	2004	3 YEAR TOTAL
Fire	\$ 10,896	\$ 9,331	\$ 9,106	\$ 29,333
Police	\$ 10,037	\$ 9,661	\$ 2,885	\$ 22,582
Health	\$ 6,036	\$ 6,177	\$ 8,313	\$ 20,526
Human Resources*	\$ 9,889	\$ 976	\$ 1,399	\$ 12,264
Highway	\$ 5,327	\$ 3,806	\$ 2,748	\$ 11,881
Airport	\$ 2,598	\$ 3,625	\$ 3,572	\$ 9,795
Building	\$ 2,782	\$ 2,310	\$ 668	\$ 5,760
Water	\$ 934	\$ 585	\$ 3,500	\$ 5,019
Library	\$ 2,896	\$ 1,819	\$ 302	\$ 5,017
Planning	\$ 2,082	\$ 1,477	\$ 1,244	\$ 4,803
Finance	\$ 1,356	\$ 2,130	\$ 1,192	\$ 4,678
Environmental Protection Division	\$ 1,638	\$ 1,114	\$ 466	\$ 3,218
Building Maintenance Division	\$ 1,287	\$ 876	\$ 953	\$ 3,116
Ordinance	\$ 949	\$ 571	\$ 958	\$ 2,478
Office of Youth Services	\$ 1,350	\$ 1,126	\$ -	\$ 2,476
City Clerk	\$ 530	\$ 481	\$ 1,412	\$ 2,424
Information Systems	\$ 625	\$ -	\$ 1,509	\$ 2,134
Mayor	\$ -	\$ -	\$ 900	\$ 900
Manchester Economic Development Office	\$ -	\$ 750	\$ -	\$ 750
Tax	\$ -	\$ 267	\$ 260	\$ 527
Public Building Services	\$ 125	\$ 169	\$ 75	\$ 369
Assessor	\$ -	\$ 52	\$ -	\$ 52
Total	\$ 61,337	\$ 47,303	\$ 41,462	\$ 150,102

* Includes \$7,150.96 of direct payments to institutions for classes benefiting all employees during FY 02

SOURCE: HTE INFYSYS Standard Report, Working G/L Reports, Object Code 270

ATTACHMENT 1

AVIATION RESPONSE TO OBSERVATION 2 AND 4

ATTACHMENT 2
FINANCE DEPT. RESPONSE TO AUDIT OBSERVATIONS

ATTACHMENT 3

PROPOSED TUITION AND EMPLOYEE DEVELOPMENT POLICIES