

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ADMINISTRATIVE SERVICES**

**PROGRESS REPORT ON AUDIT FINDINGS**

**INTERNAL CONTROL REVIEW  
REIMBURSEMENTS AND OTHER NON-WAGE  
PAYMENTS TO EMPLOYEES**

**JULY 2019**



## **FINDINGS AND RECOMMENDATIONS**

*NOTE: Observations and Recommendations have been abbreviated for purposes of this progress report. Current status report has been summarized by the Division of Accounting Services.*

### **Observation No. 1: Strengthen Internal Controls**

*Observation:*

Internal controls affecting non-wage payments to employees are centered at the Department of Administrative Services (DAS) and at other State agencies. While Executive Branch agencies are required to adhere to policies and procedures in the *DAS Manual of Procedures (MOP)*, Judicial Branch employees must adhere to procedures/criteria as set forth in the *Court Financial Policy Manual*. The distributed and disparate nature of the processes used by user-agencies to initiate and process non-wage payments to employees makes an effective internal control system at DAS and agencies imperative, in order to lessen the risk that errors or frauds will occur and go undetected and uncorrected.

*Recommendation:*

DAS, in conjunction with the agencies, should strengthen the controls over non-wage payments to employees by appropriately engaging all components of internal control into their operating activities. DAS and the agencies should ensure that sufficient resources and attention are applied and demonstrated to establish and maintain effective controls to aid the State in reaching its objectives for efficient, effective, and controlled expenditures.

The strength of controls should be based on assessed risk, business needs and objectives, priorities, and availability of resources. While available resources and competing needs limit management's capacity to actively manage the program, well designed and routinely performed controls can help mitigate the risks of uncorrected misuse, abuse, or frauds that could occur.

*Department of Administrative Services Current Status:*

As noted, the state's decentralized nature of processing disbursements, lends to the distributed and disparate nature of processes used at agencies. The MOP developed by DAS is one method of providing a level of oversight and consistency in practice. DAS has initiated the process of revising the MOP to provide clarification, standardization and enforceability. This process has included consultation with the Department of Justice as well as representatives of the collective bargaining units. DAS is currently addressing further inquiries by the collective bargaining units and is awaiting a schedule for the Governor and Council to adopt the MOP revisions. At the same time, DAS Division of Accounting Services has begun a formal risk assessment utilizing the state's internal control toolkit. It is expected that progress will be made in both of these areas throughout the next six months.

### **Observation No. 2: Expand And Clarify Employee Reimbursement Policies And Procedures**

*Observation:*

The audit noted that due to inconsistent regulatory criteria, the use of universal policies and procedures is problematic and results in policies and procedures that apply for some agencies and

situations and not others. As a result, instances were noted during the audit where some agencies and employees appeared to have opportunities for reimbursement of expenses that other agencies and employees did not have clear access to. The lack of clear and consistent policies and procedures has resulted in many of the controls intended in the design of the MOP being less effective than envisioned, with inconsistent control application and follow-up on the results of the control activities that are performed.

During our review, we noted the MOP, with respect to reimbursement payments to employees, was not sufficiently detailed to promote consistent application of State policy and procedure across all Executive Branch agencies; was in certain places inconsistent with State statutes, CBAs, and other incorporated policies and procedures; or was otherwise silent with respect to common employee travel practices, as described in the sections below.

- *Reimbursement Of Call-Back Commuter Mileage*
- *Commuting Miles*
- *Meals And Incidentals*
- *Non-Meal Tips And Gratuities*
- *Lodging*
- *No Guidance For Common Travel Practices*
- *Inadequate Travel Reimbursement Request Forms*
- *No Standard Policies and Procedures, Process Or Form For Reimbursement Of Non-Travel Related Expenses/Non-Payroll Payments*
- *Designation Of Employee's Residence As Official Headquarters*

The absence of clear and consistent design, documentation, and application of control policies and procedures results in the following:

- Employees are not provided clear and consistent guidance for submitting requests for reimbursement of expenses,
- Employee expense reimbursement requests are not consistently processed by all Executive Branch State agencies,
- Employees are not equitably reimbursed for similar expenses, and
- Employee reimbursements are at higher risk for error, fraud, and abuse that could occur and go undetected and uncorrected during the normal course of business.

*Recommendation:*

Current policies should be reviewed and revised as necessary to address vague, inconsistent, obsolete (references to proving mileage by odometer or mileage maps versus online travel mapping sites) policy language. Once revised, the new policies should be made available to all staff and officials. Mandatory training, such as online video training, should be provided on the revised policies to ensure those completing and submitting requests and those processing requests receive the same level of explanation and detail on approved policies and procedures. Agencies should then develop clear practices to ensure consistent application of the policies.

*Department of Administrative Services Current Status:*

DAS has initiated the process of revising the MOP to provide clarification, standardization and enforceability. This process has included consultation with the Department of Justice as well as representatives of the collective bargaining units. DAS is currently addressing further inquiries by the collective bargaining units and is awaiting a schedule for the Governor and Council to address the MOP revisions. Once this is complete, DAS's Division of Personnel will evaluate the best method of offering employee training in this area.

While DAS has formal audit requirements for "Travel Vouchers" we concur that other non-wage payments to employees may not receive the same level of scrutiny. DAS Division of Accounting Services has begun a formal risk assessment utilizing the state's internal control toolkit. As part of this, DAS will evaluate if additional, centralized monitoring activities are necessary for non-travel employee reimbursements.

It is expected that progress will be made in both of these areas throughout the next six months.

### **Observation No. 3: Improve Monitoring Of Control Activities**

#### *Observation:*

DAS should ensure monitoring activities are present and functioning, including regular and/or separate evaluations by appropriate personnel of the design and operation of the controls; and taking necessary actions to ensure controls remain responsive to changes in risks and are operating effectively. The volume and range of discrepancies with established policies noted in the audit are indicative of a lack of an effective control monitoring process, including:

- *Improper Completion Of Travel Reimbursement Request (TRR) Forms*
- *Ineffective Review Of TRR Forms:*
- *Reimbursement Of Expenses Potentially Incurred Solely For Convenience Or Enjoyment Of Employee*
- *In addition, the State's process to reimburse employees for in-state mileage, tolls, and parking expenses through the payroll system is not structured to promote effective controls.*

#### *Recommendation:*

DAS and agencies should ensure that sufficient resources and attention are applied to the establishment and maintenance of effective controls, including review and approval controls, related to reimbursements and other non-wage payments to employees.

#### *Department of Administrative Services Current Status:*

DAS Division of Accounting Services has begun a formal risk assessment utilizing the state's internal control toolkit. As part of this, DAS will evaluate the mechanism under which appropriate levels of management at DAS and the agencies could be notified of, and respond timely to, instances of noncompliance and other issues identified through the operation of the controls. In addition, DAS will evaluate the current process of utilizing the payroll system as a means to reimburse employees for in-state travel expenses to identify whether additional controls are necessary to ensure the accurate and timely processing of employee expense reimbursements within Executive Branch agencies.

#### **Observation No. 4: Establish A Formal Risk Assessment Process**

*Observation:*

Risk assessment is a process for identifying, assessing, and responding to risks related to the achievement of management's objectives. A prerequisite to an effective risk assessment is the establishment and recognition of objectives and the risks that may put achieving those objectives in jeopardy.

*Recommendation:*

DAS should establish a formal and documented risk assessment process to continuously review operations, including non-wage payments made to employees, for exposure to risk, and to plan for and reasonably respond to identified risks through risk elimination or mitigation. This formal process would also aid in determining and documenting whether the acceptance of the risks in the operation of the program continues to coincide with DAS and the State meeting their objectives for their operations.

As part of that risk assessment and response to risk, DAS should require participating agencies to also perform and document a risk assessment of their financial operations, including whether the acceptance of the risks continues to coincide with the agencies meeting their operating objectives.

*Department of Administrative Services Current Status:*

DAS Division of Accounting Services has begun a formal risk assessment utilizing the state's internal control toolkit. Once this is complete, DAS will provide training and encourage agencies to conduct a risk assessment of their agency financial operations.

#### **Observation No. 5: Improve Information Sharing And Communication**

*Observation:*

Due to the range of inconsistencies with established State policies and procedures identified in the employee non-wage payments reviewed, it appears that neither the employees submitting the requests for reimbursement of expenses, nor the agency staff responsible for the review, approval, and payment processing of those requests have a strong awareness of or familiarity with all of the applicable criteria governing such payments. Establishing effective communication and sharing of information is especially important when instituting a program utilized by a number of agencies, to ensure that all entities participating in the program are aware of and responsive to their responsibilities, and are able to react timely and appropriately to the recognition of risk and other changing conditions.

*Recommendation:*

DAS should improve its information sharing and communication controls. DAS should ensure that the MOP is current and comprehensive, fully explaining the objectives, conditions, and criteria and considers both current and anticipated operational needs.

Agencies should effectively communicate their process for employee expense reimbursements, including documentation requirements, with staff and responsible agency reviewers to ensure all parties are aware of the established criteria, and to ensure reviewers are able to effectively review TRRs timely process reimbursement payments in accordance with the established criteria.

*Department of Administrative Services Current Status:*

DAS has initiated the process of revising the MOP to provide clarification, standardization and enforceability. Once this is complete, it will be shared with agency financial managers, and DAS's Division of Personnel will evaluate the best method of offering employee training in this area.

**Observation No. 6 Strengthen Controls Promoting The Timely Submission And Reimbursement Of Employee Travel Expense Requests**

*Observation:*

The Department of Administrative Services' (DAS) Manual of Procedures (MOP) 1103 (E), requires employees to submit a properly completed TRR within 30 days of return from their trip. The State Employee Association's Collective Bargaining Agreement (CBA) Section 19.4.2, further directs the State to reimburse employees for valid travel expenses within 15 working days of the date an employee submits a properly completed travel voucher.

The audit noted a lack of compliance with MOP and CBA time requirements for submitting and paying mileage reimbursements, which indicates that the relevant monitoring controls are either not designed or are not operating effectively. It is also not clear whether employees and agencies are unaware of the time requirements for submitting and processing travel reimbursement in the MOP and CBAs, or whether employees and agencies are aware but consider the time requirements unimportant.

*Recommendation:*

DAS should improve communication with agencies and employees, regarding the importance of complying with required timelines for submission and payment of employee travel-related reimbursements and should review its monitoring controls to ensure they are adequate to reasonably ensure that issues resulting in noncompliant requests are appropriately addressed and corrected.

*Department of Administrative Services Current Status:*

DAS has initiated the process of revising the MOP to provide clarification, standardization and enforceability, including provisions over timeliness. Once this is complete, it will be shared with

agency financial managers, and DAS's Division of Personnel will evaluate the best method of offering employee training in this area.

### **Observation No. 7: Improve Documentation Of Mileage Claimed Through DOT's MATS System**

#### *Observation:*

The Department of Transportation (DOT) uses MATS (Managing of Assets in Transportation System), an agency information system, to accumulate and report project-based information, including hours worked and business-related in-state mileage incurred by many of its non-administrative employees. Following an electronic review and approval process, information in MATS is interfaced with NHFirst, which generates and disburses the DOT employee payroll.

While DOT has a review and approval process for personal vehicle mileage submitted through MATS for reimbursement, it is not clear the employees responsible for completing the review and approval have sufficient, readily available information regarding the employee's home and work locations, activities, and travel practices to enable them to make an informed decision as to the accuracy of the claimed mileage.

#### *Recommendation:*

DAS and DOT should review DOT's processes and related controls for accumulating, tracking, accounting for, and reporting employee work-related mileage expenses to ensure the documentation and recordkeeping of mileage claimed for reimbursement is sufficient to support reimbursements paid to employees. DOT should consider establishing a process that would require its employees to document claims for reimbursement of mileage expense in a manner equivalent to that required of all other State employees, including identification of travel purpose and starting and ending locations and certification of accuracy of the claimed mileage that would allow for effective and efficient review and approval of mileage claimed by and paid to employees.

#### *Department of Transportation Current Status:*

Although the Department has in place an automated time tracking information system, MATS (Managing of Assets in Transportation System), and is fully acceptable for federal project reimbursement and other management needs as intended, the system does lack other features to be fully compliant with State travel policy. To overcome this shortfall, the Department will adopt and incorporate the State manual paper process by use of the State of New Hampshire Payment Voucher – In State Travel (Form A-4M). The Department will also internally amend the form to identify call-back miles traveled.

While this manual process was expected to be implemented June 1, 2019, due to unanticipated retirement and employee vacancies delaying implementation, it is expected this will be implemented September 1, 2019.



## **Observation No. 8: Review And Resolve Conflicts Between RSA 4:15, DAS MOP, And Current CBAs And Practices For Paying Employees Call-Back Mileage**

### *Observation:*

- The State Employees' Association Collective Bargaining Agreement (CBA) section 19.5 provides for employees to receive "portal to portal" mileage reimbursement when on a call back.
- The CBA defines call-back status as "non-exempt employees called back to his/her place of work or other site away from his/her home without prior notice on the same day after once leaving work or before the next regular starting time."
- The State's Manual of Procedures (MOP) 1102 (D) 4, further directs that this mileage is to be reported as taxable income. Internal Revenue Service (IRS) publication 463 states that commuting expenses are not deductible, but does not address call-back type situations.
- It is not clear that DOT's interpretation and implementation of the CBA's call-back mileage provision is correct, when applied to employees called into work prior to the start of their normal shift.
- The in-state travel forms available for employees to track and report in-state miles traveled for reimbursement does not provide for the separate identification of call-back mileage nor does there appear to be any other mechanism or procedure for that purpose.

### *Recommendation:*

The State should review the conflicts between RSA 4:15, the DAS MOP, current CBAs, and current practice of paying employees call-back mileage to determine whether statutory or procedural changes are required.

If the State determines that it is appropriate to continue to pay employees call-back mileage, the State should review the business purpose and objectives intended to be met by these payments, and ensure there are clear and concise policies and procedures in the MOP describing the objectives, eligibility criteria, and process for claiming reimbursement of these expenses and that forms used for that purpose are appropriately designed to prompt accurate reporting.

The State should also ensure that all payments made to employees, including non-wage payments such as reimbursement of mileage expense, is properly categorized and reported as taxable or tax exempt.

### *Department of Transportation Current Status:*

Although the auditors cite potential conflicts between RSA and the States Manual of Procedures (MOP), the Department believes it has been interpreting and implementing travel rules appropriately. This said, the Department will assist DAS to ensure clear and concise State travel policies and procedures in an effort to avoid any conflicts of travel authority at the Department level.

The Department will adopt and incorporate the State manual paper process by use of the State of New Hampshire Payment Voucher – In State Travel (Form A-4M). The Department will also internally amend the form to identify call-back miles traveled. While this manual process was

expected to be implemented June 1, 2019, due to unanticipated retirement and employee vacancies delaying implementation, it is expected this will be implemented September 1, 2019.

### **Observation No. 9: Improve Internal Controls Over Reimbursement Of Judicial Branch Employee Expenses**

*Observation:*

Judicial Branch Travel Policy, Section 4.1 of the Court Financial Policy Manual specifies that a travel reimbursement form is to be used for in-state and out-of-state job-related travel expenses incurred by employees, as well as miscellaneous job-related out-of-pocket expenses. The policy further specifies that the form must be approved by the employee's supervisor before payment can be processed, and must be submitted no later than 45 days after the expense is incurred. Traditional employees are reimbursed via check, upon submission of a completed travel reimbursement form. Judges and justices are generally reimbursed via payroll direct-deposit, based on information court clerks enter into the Judicial Branch's scheduling system. The audit noted several findings in regards to the review of Judicial Branch Travel Reimbursement forms and other available supporting documentation.

*Recommendation:*

The Judicial Branch should continue to review its existing policies and procedures, including its current practice of reimbursing judges and justices without requiring the completion of an approved travel reimbursement request and certification, to determine whether the policies and procedures are sufficient to provide controlled and accurate processing of employee expense reimbursements.

The Judicial Branch should implement an effective review and approval process for all employee expense reimbursements. The process should include review and approval performed by an individual at the appropriate level with knowledge of the employee's travel to enable informed decisions to be made as to whether the travel expenses reported are reasonable in relation to the employee's assignment, and are appropriate in amount.

The Judicial Branch should review its mileage reimbursement practices to ensure commuting miles are being treated appropriately.

*Administrative Office of the Courts (AOC) Current Status:*

As described herein, the AOC has determined the recommendations provided in this finding have been implemented. As a result of an expense reimbursement audit performed by our Internal Audit Department, and the expense reimbursement audit performed by the LBA Audit Division, the Judicial Branch has reviewed and updated our existing policies and procedures over expense reimbursement to ensure proper internal controls are present to ensure employee business-related expenses are reimbursed in accordance with applicable State statutes as well as the Judicial Branch's established internal policies and procedures. The updated Travel and Business Expense Reimbursement Policy (FIN 4.01) and Expense Reimbursement Form became effective on January 1, 2019. Prior to the updated policy and form becoming effective, all employees of the Judicial

Branch were provided with training on the updates to the policy and procedures. In addition, training was provided to the Accounting Department staff that is responsible for processing expense reimbursement forms to ensure compliance with the updated policy and procedures.

**Observation No. 10: Initiate And Disburse Settlement Payments In Accordance With RSA 99-D:2**

*Observation:*

There is no guidance in the State's Manual of Procedures or other guidance documents that address the issue of settlements, including controls over the payment of settlements.

*Recommendation:*

DAS should establish formal, documented policies and procedures to ensure all settlement payments generated in response to claims brought against the State, are made in accordance with RSA 99-D, and are appropriately reviewed and authorized by the Department of Justice. DAS should ensure the policies and procedures are effectively communicated to all agencies to ensure all settlement payments are appropriately authorized in accordance with RSA 99-D:2

*Department of Administrative Services Current Status:*

DAS has begun to update internal documentation for proper budgetary coding and tax treatment of settlement payments, and as part of our overall risk assessment, DAS will determine how best to coordinate procedures with both DOJ and the independent boards. It is expected that the risk assessment will be completed within the next six months. In addition, Accounting Services has re-emphasized to its audit staff the importance of reviewing all aspects of the invoices entered by agencies prior to approving payment.

**Observation No. 11: Review Tax Status Of Payments To Employees For Clothing, Footwear, Equipment, And Other Work-Related Expenses**

*Observation:*

In accordance with provisions of the various collective bargaining agreements, the State provides payments to certain employees, either as a reimbursement or as an allowance, for clothing, footwear, equipment, tool rental, and other non-travel related expenses. We found the State's process for these payments, and tax treatment of the payments, also to be inconsistent.

*Recommendation:*

DAS should review the State's current process for paying, and determining the tax status of payments made to employees, both by reimbursements and allowances, for clothing, footwear, equipment, and other work-related expenses. DAS should determine, establish, and provide appropriate policies and procedures, and training to agencies to ensure agencies have guidance for coding transactions in compliance with State policy and IRS guidelines.

In addition to guidance and training, DAS should establish controls to monitor agency compliance with those policies and procedures to reasonably ensure that payments to employees for work-related expenses are appropriately included in or excluded from employees' taxable wages.

*Department of Administrative Services Current Status:*

DAS has begun to update internal documentation for proper budgetary coding and tax treatment of certain non-wage payments, and as part of our overall risk assessment, DAS will determine how best to coordinate procedures with agency payroll officials. It is expected that the risk assessment will be completed within the next six months. Employee training needs will be determined through coordination with the Department of Personnel.