



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

December 30, 2008

Mayor and City Council
City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Tuition Reimbursement, Audit 08-13

Dear Mayor Littlefield and Council Members:

Attached is the Internal Audit Division's report on the Personnel Department Tuition Reimbursement Program.

We thank the management and staff of the Personnel and Finance Departments for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Donna Kelley, Personnel Director
Daisy Madison, Chief Financial Officer

**PERSONNEL DEPARTMENT
TUITION REIMBURSEMENT
AUDIT 08-13
December 4, 2008**

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Auditor



Audit Director

**PERSONNEL DEPARTMENT
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INTRODUCTION

The City established an educational assistance program to help eligible employees develop their skills and upgrade their performance. This program is administered through the Personnel Department. All full-time, regular employees who have completed a minimum of one year of service are eligible to participate in the program. The program provides educational assistance for courses offered by City-approved institutions of learning, such as accredited colleges, universities, and secretarial or trade schools. Courses must not interfere with the employee's job responsibilities and must be taken on the employee's own time. Reimbursement covers actual tuition and registration fees only and is limited to a maximum of six credits per semester for approved courses. Costs are reimbursed at 80% if the employee obtains a grade of C or better:

Employees eligible for reimbursement from any other source, (e.g., a government-sponsored program or a scholarship) may seek reimbursement only for costs not covered by the outside funding source. No more than two courses may be reimbursed during any semester, quarter or term. Reimbursement is limited to \$500 per term and \$1,000 per year.

STATISTICS

Net Tuition Reimbursements for the last fiscal years:

| | <u>FY06</u> | <u>FY07</u> | <u>FY08</u> |
|------------------------|-------------|-------------|-------------|
| Total All Departments: | 14,336.16 | 17,913.60 | 17,109.24 |

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2008 Audit Agenda. The objectives of this audit were to determine if:

1. Only qualified employees were participating,
2. The reimbursements were related to the current job and/or career plan,
3. The reimbursements were pre-approved, and the schools were accredited,
4. The reimbursements were calculated correctly and supported, and
5. The employee's personnel record contained a record of completion.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit scope will cover the operations period of fiscal year 2008. The audit covered all the reimbursements made during the period. The entire population was tested. Source documentation was obtained from the Finance Department, with Personnel providing other records as needed to formulate a conclusion as to the objectives of this audit. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

The BANNER accounting system was accessed to determine the total number reimbursements made during the audit period. It was determined that there were only thirty-seven payments made during the period, so the entire population was chosen for review.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors. An internal audit charter has not been approved by the City Council.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Only qualified employees were participating,
2. Reimbursements were job related and part of the employee's City career plan,
3. Reimbursements were not pre-approved in 40% of the cases,
4. The reimbursements were not calculated correctly and/or supported in 84% of the cases, and
5. The employee's file did contain documentation of course completion.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Personnel Department, they do present risks that can be more effectively controlled.

PAYMENTS IN VIOLATION OF POLICY

A review of the payments made for tuition reimbursement revealed that thirty-one of thirty-seven payments (84%) made were in violation of at least one part of the Policy requirements. However, as demonstrated in the chart below, many payments contained multiple deviations from the policy criteria.

| | | | | | | | |
|------------|---------------------|---------------------|---------------|-------------------|-----------------|------------------|----------------|
| Criteria | Regular Fulltime | Over One Year | Job Related | Assist Career | Preapproved App | App filed Prior | Attend Class |
| Deviations | 0 | 0 | 0 | 0 | 15 | 25 | 16 |
| | | | | | | | |
| Criteria | Transcript Attached | Data in Employ file | Financial Aid | Accredited School | More Than 2 | Receipt Attached | Grades Awarded |
| Deviations | 4 | 0 | 10 | 3 | 0 | 5 | 2 |

RECOMMENDATION 1

We recommend the Tuition Reimbursement Policy be revised to centralize the processing of all reimbursement activity, including the preparation of the ultimate payment document, in the Personnel Department to allow a thorough and consistent review to take place.

REIMBURSEMENT UPON TERMINATION

Out of thirty-seven payments for tuition reimbursement, two were made to employees who resigned from the City within one year of receiving the reimbursement. In such instances, the Tuition Reimbursement Policy requires the reimbursed amount to be withheld from the employee’s final paycheck. The City was not reimbursed in either of these two instances.

RECOMMENDATION 2

When processing the termination of an employee, the Personnel Department should notify Payroll that Tuition Reimbursement repayment is due when a person resigns within a year of receiving assistance.

POLICY UNCLEAR

While reviewing this Policy, we noted the criteria were sometimes unclear or contradictory. We further noted that it was sometimes unclear as to proper procedures required by all parties.

RECOMMENDATION 3

We recommend the Tuition Reimbursement Policy be revised to clarify potentially ambiguous or contradictory terminology, as well as to more clearly state the process/steps to be followed and assign full administrative responsibility to the Personnel Department.

AUDITEE RESPONSE

I agree with many of the recommendations regarding the involvement indicated for the Personnel Department and we will gladly participate in revamping the program.