

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: July 18, 2016

TO: Rushmore D. Cervantes, General Manager
Housing and Community Investment Department

FROM: Siri Khalsa, Interim Director of Auditing
Office of the Controller



SUBJECT: RESULTS OF LIMITED SCOPE FISCAL REVIEW AT THE HOUSING AND COMMUNITY INVESTMENT DEPARTMENT

On April 18 & 19, 2016, the Controller's auditors conducted surprise cash counts at three locations at Housing and Community Investment Department (HCID). The purpose of these surprise cash counts is to ensure that collections and authorized petty cash/change funds are accounted for properly and adequate controls are in place over these funds.

We counted \$10,841.27 consisting of currency, coins and checks. HCID receives payments for housing programs such as the Rent Escrow Account Program (REAP), Los Angeles Seismic Retrofit Program, noncompliance housing codes and inspections fees.

We also conducted a payroll observation and analysis of mileage reimbursements for pay period #19, and reviewed HCID's four bank accounts that are not controlled by the Treasurer.

Our audit was performed 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.

Overall Results

Overall, we found that authorized cash funds were properly accounted for and HCID has adequate internal controls in place to ensure all money collected is deposited timely. Our review of HCID's four bank accounts that are not controlled by the City's Treasurer noted no issues. The Department maintains one Wells Fargo bank account used for emergency purchases and three bank

Rushmore D. Cervantes, General Manager

July 18, 2016

Page 2 of 5

accounts (two Union Bank and one US Bank) to deposit proceeds/collections related to Section 108 loans owed to HUD. We noted some weaknesses in payment of mileage reimbursement to employees, which are described in the Observations Section.

Review of Report

We provided a draft report to your Department on June 15, 2016, and Department representatives indicated general agreement with the findings and recommendations. The Action Plan submitted by your Department on June 21, 2016 is included as an attachment to this report. We now consider the three recommendations as In Progress.

OBSERVATIONS

PAYROLL OBSERVATION & LIMITED MILEAGE REVIEW

HCID paid 617 employees for pay period #19 (two weeks ending March 19, 2016). We selected division #100 that included 208 employees, and judgmentally selected 19 housing inspectors for payroll review at four HCID locations: Garland Building 1200 W 7th Street, (Central) 3550 Wilshire Blvd., (North Regional) 6640 Van Nuys, Blvd., and (West Regional) 1645 Corinth Avenue. No issues were noted related to salaries paid.

For the ten inspectors that had the highest mileage paid during pay period #19, we obtained the inspectors' mileage statement(s) and their mileage vehicle certification to verify they were paid correctly.

Section 4.230 of the Los Angeles Administrative Code (LAAC) allows reimbursement to employees who are authorized to use their personal vehicles to perform their duties. The cents-per-mile reimbursement rate is set equal to the annual standard car miles allowance as determined by the Internal Revenue Service. Effective January 1, 2016 the rate is 54 cents a mile.

To receive reimbursement, employees complete bi-weekly mileage statements, which correspond to the City's payroll periods. Generally, the mileage forms have columns/spaces for the employee to indicate the dates, locations visited, work order numbers, odometer readings, and arrival times. After approval by the employee's supervisor, the claims are submitted to the Department's Payroll Section for entry into the City's Payroll System (PaySR).

Employees are not reimbursed for any miles driven between their home and headquarters, as this is considered their necessary commute. Each employee approved for mileage reimbursement is required to have a designated headquarters, which is defined by the LAAC as "those places and assignments to which an employee is required to report for instructions such as the City Hall or any of its branches, various departmental or divisional yards, plants or stations or similar places of assignment."

Once an employee arrives at their first stop (either a field location or headquarters), the employee receives reimbursement for all miles driven until they arrive at their last stop. In addition, employees are reimbursed for any miles between home and their first stop and for any miles between their last stop and home, which exceed the distance between the employee's home and headquarters.

PaySR uses the employee's Home to Headquarters (HHQ) deductor miles to calculate mileage reimbursements. However, PaySR does not show the employee's headquarters location, even for the current period.

From records in each employee's file and information provided by departmental management, we obtained a headquarters address for each sampled employee for our review period¹. We then used Google maps to assess the accuracy of employees' reported HHQ miles.

Observation#1: HCID does not adequately monitor employees' HHQ miles.

- **We noted instances where employees' HHQ in PaySr were understated.**
- **Understating HHQ results in overpayments.**

Of 10 employees sampled, we identified four (40%) employees whose HHQ miles were understated in PaySr. Three of the four employees followed the Department's policy and submitted a form to change their HHQ; however, HCID's payroll division failed to update the information in PaySR. We determined that HCID overpaid three of 10 employees.

For two employees, the variance was one mile; however, when applied to every trip claimed since the employee had established the HHQ location, the

¹ It should be noted that HCID does maintain centralized electronic files of each employees' headquarters.

cumulative effect of what could be considered an insignificant variance was 246 and 2,816 miles, respectively. The third employee had a 10-mile variance between the PaySR deductor and actual HHQ miles, totaling 1,930 miles over seven months. Based on the mileage reimbursement rates in effect at the time, overpayments to these three employees totaled \$2,714.

We also identified one employee that showed a higher HHQ mileage in PaySr compared to the employee's mileage vehicle certification; however, the employee was paid the correct amount because the Payroll Clerk corrected / overwrote the employees' HHQ in PaySr.

Recommendations

HCID Management should:

- 1. Establish appropriate controls to ensure the accuracy of employees' HHQ mileage deductors in PaySr, as well as in the mileage statements and mileage vehicle certification form.**
- 2. Consider seeking reimbursement from employees that were overpaid due to inaccurate HHQ deductors.**

Observation#2: Delays in processing mileage statements for reimbursement.

- Employees/Supervisors may accumulate mileage statements before submission for reimbursement.**
- Employees' paycheck/stubs do not indicate how many miles are being paid, or for which period, making it difficult to check for completeness or accuracy.**

Our review noted that seven of the sampled employees showed a very high number of miles paid in pay period#19. HCID let multiple mileage statements accumulate over time; and employees received a lump sum payment for prior mileage submitted. The Department's practice allows employees to submit up to four mileage statements at once.

All ten sampled employees indicated that they submit their mileage statements timely every pay period. Two supervisors also indicated that they submitted the employees' mileage statement every pay period to HCID payroll.

Recommendation

HCID Management should:

- 3. Encourage employees and supervisors to submit mileage statements timely by setting deadlines. Payroll should track submission of statements by supervisors and employees, and notify management when submissions are late.**

ATTACHMENT I - DEPARTMENT'S RESPONSE



Eric Garcetti, Mayor
Rushmore D. Cervantes, General Manager

INTER-DEPARTMENTAL MEMORANDUM

TO: FARID SAFFAR
DIRECTOR OF AUDITING, OFFICE OF THE CONTROLLER

FROM: RUSHMORE CERVANTES
GENERAL MANAGER, HOUSING + COMMUNITY INVESTMENT DEPARTMENT

DATE: JUNE 21, 2016

REGARDING: RESULTS OF THE LIMITED SCOPE FISCAL MILEAGE REVIEW - DRAFT REPORT

In response to your draft report summarizing the results of the limited scope fiscal review at HCID, following are our responses to the concerns referenced in the document:

Observation #1: HCID does not adequately monitor employees' home to headquarters miles.

- We noted instances where employees' home to headquarters in PaySr were understated.
- Understating home to headquarters mileage results in overpayments.

HCID Response: This exception is correct, based on Mileage Vehicle Authorization on file, three out of ten HOME to Headquarters (HHQ) miles were not updated in PaySr. Please note, one of the discrepancies was due to a rounding issue, the HHQ miles was rounded down instead of up. Specifically, the actual HHQ miles is 32.6, the employee rounded down to 32 on the Mileage Vehicle Certification form while PaySR indicates the correct amount of 33 miles.

Action Plan/ Controls:

- Payroll will continue to review all Mileage Vehicle Authorization on file, and update PaySR, if needed
- Payroll will continue to reference three documents (Mileage verification form, PaySR data and Code, Compliance and Rent Information System info) when processing mileage reimbursements.
- Program staff will promptly notify Payroll of staff reassignments and will continue to instruct staff to update the Mileage Vehicle Authorization form upon change in the assigned HHQ.
- Staff cited during this audit will be notified of the required repayment of funds as result of this review.

Observation #2: HCID'S payroll division did not process mileage statements timely.

- Employees sometimes wait months to receive reimbursement.
- Employees' paycheck/stubs do not indicate how many miles are being paid, or for which period, making it difficult to check for completeness or accuracy.

HCID Response: Of the ten employees selected all mileage reimbursements were processed within the department's policy of paying mileage "within 2 pay periods of the statement ending date". Based on the date stamped marking the mileage reimbursements as received by HCID's Payroll Unit, all were processed within payroll processing cut off deadlines (see attached). Although staff accumulated more than 2 pay periods of

mileage reimbursement requests before submitting for reimbursement, upon submission, Payroll staff processed the mileage reimbursements within payroll processing cut off deadlines.

Action Plan/ Controls: The Department's Mileage Reimbursement policy memorandum will be updated to further clarify deadlines, responsibilities, and actions to be taken for delinquent submissions. As noted, currently our paystubs do not provide the pay periods the mileage was paid on. Since this is an enhanced feature we will ask PaySr programmers if it is feasible to add this functionality. In the meantime we will utilize Google spreadsheets to create a log sheet for the Supervisors to view the mileage statements that have not been submitted and what pay periods have been paid.

If you have additional questions regarding the responses or status of the recommendations, please contact Luz Santiago, Assistant General Manager of Administration, at (213) 808-8899 or Luz.Santiago@lacity.org

Attachments