

Office of the Internal Auditor

AUDIT REPORT

November 2022

P-Card & Expense
Reimbursement



Table of Contents:

Page



Executive Summary

Background	1
OIA Data Analytics Overview	1
Audit Objectives and Scope	1
Results	1



Detailed Findings

1. Tuition Reimbursement	3
2. Expense Report Approval	4



Appendix

Issue Classifications	7
Distribution	9



Executive Summary

Background

Citizens employees are responsible for the prudent spending of company funds and obtaining the proper documentation for all business expenses. Reasonable costs of travel expenses necessary for the purpose of conducting business on behalf of the corporation are reimbursed in accordance with this policy. Additionally, reimbursement is also allowed for business expenses such as professional certification fees, subscriptions, and awards and recognition items.

Citizens elected to use Purchasing Cards (P-Cards) as the best payment method for employees approved to use a credit card for certain business expenses. The P-Card allows for increased controls with restrictions that limit the types of charges allowed and the amount of credit that may be extended in any monthly billing cycle. Alternatively, an employee may also use personal funds and request reimbursement for business-related expenses. All expenses must be business related and comply with the Business Travel Policy, the Business Expense Policy, the Purchasing Policy, and other applicable policies. Personal funds are reimbursed via direct deposit or check based on the employee's selection.

OIA Data Analytics Overview

To date, Internal Audit, in conjunction with the OIA data analytics team, has created around fifty data analytical tests. These tests focus on the analysis of data trends, across various platforms within the organization, to identify outlier information in the data, which may indicate potential weaknesses in the control infrastructure. Recent results noted outliers that were considered unusual in the expense reimbursement process.

Objectives and Scope

The audit focused on an operational assessment of the risk and related controls over the payment of business and travel expenses with a P-Card and reimbursement requests. Internal Audit's targeted approach will evaluate the reasonableness of noted anomalies identified as part of our advanced analytics program.

Results

Overall, the employee reimbursement process is operating effectively and efficiently. Internal Audit found that reimbursed employee expense documentation and related files were properly maintained and available, and supporting documentation reviewed reflected allowable and approved purchase transactions.

Instances of non-conformance with the corporate policy were found, which are attributable to minor control weaknesses in the expense reimbursement process. Results from our audit of the expense reimbursement process identified the following:

- **Controls over tuition reimbursement review and approval need to be enhanced.** Internal Audit identified an instance where an employee was reimbursed for more than the allowed annual maximum. Additionally, there were two instances where tuition expenses were split between years, although occurred in a single year, which circumvented the annual maximum allowed by policy and IRS. The annual maximum reimbursement of \$5,250 is defined by the IRS and has income tax implications for the employee and employer when exceeded. Failure to accurately monitor and track tuition reimbursement could lead to inaccurate tax reporting.



Executive Summary

- **Controls over expense report review and approval need to be enhanced.** Instances of certain types of expenses, submitted on expense reports, did not get routed to the appropriate level of management in alignment with policy. CenterPoint expense report workflows are not designed/configured to redirect the expense reports to the appropriate approval levels defined by the policy. An inadequate expense report approval process could lead to expenses not being approved in compliance with corporate policies.

We would like to thank management and staff for their cooperation and professional courtesy throughout the audit process.



Detailed Findings

1. Tuition Reimbursement

Classification	Medium	Control Evaluation	Control is not operating effectively
Observation	<p>Internal Audit identified three instances where the tuition reimbursement program is not operating effectively.</p> <ul style="list-style-type: none"> Two instances where one employee was reimbursed \$5,591 in 2021 and \$7,189 in 2020, which is more than the maximum of \$5,250 per calendar year, per Citizen's policy. In addition, the amount of the reimbursement overage was not included as part of the employee's income in alignment with IRS Code, Section 127. Two instances where tuition expenses were split between years, which could be perceived to circumvent the annual maximum allowed by policy and IRS. <p>Note: Internal Revenue Code, Section 127, Educational Assistance Programs, provides an exclusion of up to \$5,250 per calendar year from an employee's gross income for educational assistance received by the employee. Education reimbursement amounts received greater than \$5,250 per calendar should be included in the employee's gross income.</p>		
Cause(s)	<p>The tuition reimbursement process is manual and requires several relevant documents for approval. The manual nature coupled with the required documentation led to these instances not being identified as part of the review and approval process.</p>		
Exposure	<p>Education reimbursement amounts received greater than \$5,250 per calendar should be included in the employee's gross income to be aligned with the IRS code.</p>		
Suggested Action	<p>Management should:</p> <ul style="list-style-type: none"> File a corrected W-2 for the employee who received more than the maximum of \$5,250 per calendar year and other related payroll tax filings. Update the tuition reimbursement program procedures to restrict the splitting of tuition reimbursement amounts between years. In addition, update procedures to submit reimbursement requests within 15 days after the completion of a semester to encourage the timely processing of all coursework-related expenses. 		
Management Action	<p>Human Resources will implement a deadline for participating employees to have their reimbursement requests, transcripts, and receipts into myHR Connect such that the associated expense reports can be completed by calendar year-end. A couple of exceptions in previous years were made to not cause hardships to employees; however, now learning that this took us outside of the IRS guidelines. Implementing a year-end deadline will also assist HR</p>		



Detailed Findings

	<p>with receiving documentation from employees in a timely manner. Also, in 2021, the Education Reimbursement process went from being a manual process to being automated, which will help to catch any reimbursement submitted which exceeds the IRS calendar year limit.</p> <p>Additionally, HR will amend the W-2 and other payroll-related tax filings for both 2020 and 2021 and reissue them to the employee in accordance with IRS requirements.</p>		
Responsible Individual	Palicia Francis; Senior Director, Learning and Development	Completion date	January 30, 2023



Detailed Findings

2. Expense Report Approval

Classification	Medium	Control Evaluation	Control not appropriately designed																	
Observation	<p>Internal Audit identified 13 instances where expense report approval was not performed by an appropriate level of management. Per Policy #304, Business Expense Not Related to Business Travel, approval levels for expense reports are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3">Approval Levels for Expense Reports</th> </tr> <tr> <th>Level of Management</th> <th>Spending Limit</th> <th>Additional Approvals</th> </tr> </thead> <tbody> <tr> <td>Manager/Assistant Director</td> <td>Less than \$2,000</td> <td>None</td> </tr> <tr> <td>Director/ Sr. Director/ Vice President</td> <td>Less than \$5,000</td> <td>None</td> </tr> <tr> <td rowspan="2">Chief</td> <td>Less than \$10,000</td> <td>None</td> </tr> <tr> <td>\$10,000 and above</td> <td>Chief Financial Officer or CEO (or Designee)</td> </tr> </tbody> </table> <p>For each instance the expense report was approved by the employee's direct supervisor; however, the dollar amount of the expense report required an additional level(s) of management approval.</p> <p>Internal Audit also observed that approval levels defined in Policy #304 for expense reports are not consistent with the approval levels for check requests, purchase requisitions, and invoices.</p> <p>Additionally, Internal Audit found the Senior Executive Assistant to the CEO approving their own expense reports.</p>			Approval Levels for Expense Reports			Level of Management	Spending Limit	Additional Approvals	Manager/Assistant Director	Less than \$2,000	None	Director/ Sr. Director/ Vice President	Less than \$5,000	None	Chief	Less than \$10,000	None	\$10,000 and above	Chief Financial Officer or CEO (or Designee)
Approval Levels for Expense Reports																				
Level of Management	Spending Limit	Additional Approvals																		
Manager/Assistant Director	Less than \$2,000	None																		
Director/ Sr. Director/ Vice President	Less than \$5,000	None																		
Chief	Less than \$10,000	None																		
	\$10,000 and above	Chief Financial Officer or CEO (or Designee)																		
Cause(s)	Approval workflows in CenterPoint are not designed/configured to redirect expense reports based on the dollar amount. Additionally, approval levels for expense reports are different from approval levels for check requests, purchase requisitions, and invoices creating inconsistency.																			
Exposure	An inadequate expense report approval process could lead to expenses not being in compliance with corporate policies.																			
Suggested Action	<p>Management should:</p> <ul style="list-style-type: none"> • Create approval workflows for expense reports based on the approval levels defined by the policy. • Update the approval workflow for the Senior Executive Assistant expense reports to be reviewed and approved by the CFO. 																			
Management Action	Updating the approval workflow in CenterPoint is not the desired approach at this time. Instead, Accounting will ensure the relevant policies specify approval thresholds and will also include a statement that reimbursements that exceed																			



Detailed Findings

	a manager's approval limit should be reassigned to an individual in that manager's reporting hierarchy with appropriate approval limits. All expense reports are reviewed by Accounting before disbursement. During this review, if thresholds are exceeded the expense report will be re-routed through proper approval.		
Responsible Individual	Andrew Woodward, VP – Controller	Completion date	March 31, 2023



Issue Classifications

Control Category	High	Medium	Low
<i>Financial Controls (Reliability of financial reporting)</i>	<ul style="list-style-type: none"> Actual or potential financial statement misstatements > \$10 million Control issue that could have a pervasive impact on control effectiveness in business or financial processes at the business unit level A control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in the financial reporting process 	<ul style="list-style-type: none"> Actual or potential financial statement misstatements > \$5 million Control issue that could have an important impact on control effectiveness in business or financial processes at the business unit level 	<ul style="list-style-type: none"> Actual or potential financial statement misstatements < \$5 million Control issue that does not impact on control effectiveness in business or financial processes at the business unit level
<i>Operational Controls (Effectiveness and efficiency of operations)</i>	<ul style="list-style-type: none"> Actual or potential losses > \$5 million Achievement of principal business objectives in jeopardy Customer service failure (e.g., excessive processing backlogs, unit pricing errors, call center non responsiveness for more than a day) impacting 10,000 policyholders or more or negatively impacting a number of key corporate accounts Actual or potential prolonged IT service failure impacts one or more applications and/or one or more business units Actual or potential negative publicity related to an operational control issue An operational control issue relating to any fraud committed by any member of senior management or 	<ul style="list-style-type: none"> Actual or potential losses > \$2.5 million Achievement of principal business objectives may be affected Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting 1,000 policyholders to 10,000 or negatively impacting a key corporate account Actual or potential IT service failure impacts more than one application for a brief period Any operational issue leading to injury of an 	<ul style="list-style-type: none"> Actual or potential losses < \$2.5 million Achievement of principal business objectives not in doubt Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting less than 1,000 policyholders Actual or potential IT service failure impacts one application for a brief period



Appendix 1

Control Category	High	Medium	Low
	any manager who plays a significant role in operations <ul style="list-style-type: none"> Any operational issue leading to death of an employee or customer 	employee or customer	
<i>Compliance Controls (Compliance with applicable laws and regulations)</i>	<ul style="list-style-type: none"> Actual or potential for public censure, fines, or enforcement action (including requirement to take corrective actions) by any regulatory body which could have a significant financial and/or reputational impact on the Group Any risk of loss of license or regulatory approval to do business Areas of non-compliance identified which could ultimately lead to the above outcomes A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact 	<ul style="list-style-type: none"> Actual or potential for public censure, fines, or enforcement action (including requirement to take corrective action) by any regulatory body Areas of non-compliance identified which could ultimately lead to the above outcomes 	<ul style="list-style-type: none"> Actual or potential for non-public action (including routine fines) by any regulatory body Areas of noncompliance identified which could ultimately lead to the above outcomes
<i>Remediation timeline</i>	<ul style="list-style-type: none"> Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy 	<ul style="list-style-type: none"> Such an issue would be expected to receive corrective action from senior management within 1 month, but must be completed within 90 days of final Audit Report date 	<ul style="list-style-type: none"> Such an issue does not warrant immediate attention, there should be an agreed program for resolution. This would be expected to complete within 3 months, but in every case must not exceed 120 days



Distribution

Addressee(s) Andrew Woodward, VP – Controller
Palicia Francis, Senior Director – Learning & Development

Business Leaders:

Barry Gilway, President/CEO/Executive Director
Violet Bloom, Chief Human Resources Officer
Jennifer Montero, Chief Financial Officer
Mark Kagy, Inspector General

Audit Committee:

JoAnn Leznoff, Citizens Audit Committee Chair
Carlos Beruff, Citizens Audit Committee Member and Chairman of the Board
Scott Thomas, Citizens Audit Committee Member

Following Audit Committee Distribution:

The Honorable Ron DeSantis, Governor
The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
The Honorable Wilton Simpson, President of the Senate
The Honorable Chris Sprowls, Speaker of the House of Representatives

The External Auditor

*Completed by Patrick Lynch, Internal Audit Manager
Under the Direction of Joe Martins, Chief of Internal Audit*