



Metro

Office of the Auditor

# Frequent Flyer Benefits Audit Follow-Up

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## SUMMARY

Some progress was made on the six recommendations in the 2011 audit. Two recommendations were implemented and one was no longer relevant. Three recommendations were not implemented including updating Metro's travel policy, training travelers and limiting options for employees to use their personal credit cards to pay for travel. As a result, some of the same risks identified in the original audit remain.

## BACKGROUND

In March 2011, the Auditor's Office released a report on frequent flyer benefits. The audit contained six recommendations to strengthen controls over travel practices and ethics. At that time, Metro did not have a policy for employee collection of frequent flyer benefits. A sample of travel records showed that employees in several parts of the organization collected benefits. If those benefits were later used for personal benefit, it would violate state ethics laws, unless they were approved as part of an employee's compensation.

The audit also found inconsistent application of travel policies across the agency. This may have led to Metro paying more than necessary for travel. The 2011 audit identified the need to balance ethical requirements with cost-effective administration. At that time, the management structure provided wide flexibility. This limited the agency's ability to control costs, manage ethics risks, and ensure consistent application of policies across the agency.

Lack of clear guidance and training for travel was the primary reason the initial audit was completed. Reports had been made to Metro's Accountability Hotline with concerns about the consistency of travel procedures and compliance with state ethics laws. The Auditor's Office was notified of a similar concern in 2015.

## METHODOLOGY

The objective of this audit was to determine if the recommendations from the 2011 audit were implemented. To meet our objective, we reviewed policies and procedures related to travel and ethics. We researched ethics laws and rulings of the Oregon Government Standards and Practices Commission. We interviewed Metro employees who were involved in developing travel and related policies. We also reviewed draft travel policies and compared them to current practices.

We identified an issue unrelated to the objective of the follow-up audit during our review. There was a contradiction in Metro's personnel code that needed to be clarified. Information about this issue was communicated to management in a separate memo in January 2016.

We conducted this follow-up 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.

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## RESULTS

Some controls over travel practices and ethics improved after the original audit. A policy to guide employee collection of frequent flyer and other marketing rewards was adopted, which addressed ethical requirements related to travel benefits. The policy made the recommendation to disclose travel benefits received no longer relevant. In addition, two of the six recommendations were implemented. However, progress on these recommendations had a relatively small effect because the other recommendations were not implemented.

Metro’s travel policy is out of date. A revised travel policy has been in development since 2011, but had not been adopted at the time of our review. Training was not provided to all travelers. Lack of an up-to-date travel policy and training limited Metro’s ability to control costs and ensure consistent application of travel practices.

Travel policy is out-of-date and training is not provided to all travelers

After the original audit, procedures and practices for travel were not clarified. Metro’s current travel policy is 13 years old and contains procedures that are no longer used. There is a separate travel policy for Metro’s visitor venues (MERC Venues). It was not clear which policies applied to travelers in some parts of the organization. During the follow-up audit, we found contradictory policies related to travel on Metro’s internal website. This increased the risk of inconsistent application of travel practices.

A revised travel policy has been in development since 2011. During the follow-up audit, we were told that the new policy was being finalized. Based on the estimated timeline we were given, it is possible the policy could be adopted by May 2016. Because the policy was not in place within five years of the original audit, we concluded the first recommendation (see page 5) was not implemented.

The draft policy we reviewed as part of this follow-up audit was almost identical to the draft that we reviewed in 2011. One of the most substantive differences between the two documents was a provision to allow certain employees to “...expense full client entertainment expenses.” It is not clear if this includes alcoholic beverages. Paying for other people’s expenses and/or purchasing alcohol may raise questions about the appropriate use of public funds.

**Exhibit 1:** Excerpt of change between 2011 and 2016 travel policy drafts

| January 2011 Draft  | February 2016 Draft  |
|---|--|
| <b>The purchase of alcoholic beverages is never an allowed expense.</b> | <b>The purchase of alcoholic beverages is never an allowed expense.</b><br>Due to business needs of the MERC Venues, the venue directors and General Manager of Visitor Venues are allowed to approve and submit a list of positions annually that are eligible to expense full client entertainment expenses consistent with the Drug and Alcohol Use Policy and Appendix A: Business Development Waiver. |

Source: Auditor’s Office analysis of draft travel policies

After we discussed the preliminary findings of this follow-up audit with management and sent a summary of the findings in late January 2016, additional information was provided to the Auditor's Office. We were notified that employees were directed to use travel advances for meal expenses rather than use their Metro issued procurement cards or personal credit cards for meals. In early February 2016, a new draft travel policy was provided.

We decided not to modify the report's conclusions because these changes had not been approved or adopted at the time of this report. In addition, the information provided to the Auditor's Office was inconsistent in some areas. For example, the February 2016 draft of the travel policy stated that employees with procurement cards could only request travel advances for miscellaneous expenses not meals. That contradicted the direction to employees in late January 2016 that travel advances were the only payment option for meal expenses. This contradiction indicated more coordination was needed to implement a policy that clearly states Metro's position in regard to travel procedures and practices.

The recommendation to train travel coordinators and employees on policies and procedures was not implemented (see #3 on page 5). The only travel training available was for employees who were issued procurement cards. Not all employees have procurement cards, which meant some travelers were not trained.

We also determined that the recommendation to limit use of personal credit cards for travel was not implemented (see #4 on page 5). The travel policy that is currently in effect, and the draft policies we reviewed, encouraged employees to use Metro-issued procurement cards, but not all employees have access to this payment option. The policy allows employees to be reimbursed for expenditures made using personal credit cards without limitation.

The purpose of limiting payment options for travel was to reduce opportunities for employees to receive personal benefits during Metro travel. There is a risk that allowing employees to accept benefits could result in Metro paying more than necessary. If employees can receive personal benefits from making purchases with certain vendors, they may not use the lowest cost option.

Marketing rewards policy clarified Metro's position regarding travel benefits

In response to the original audit, the Chief Operating Officer (COO) and MERC approved a policy to clarify employee collection and use of frequent flyer benefits and other marketing rewards. State law prohibits public employees from receiving personal gain from their position. Rulings by the state ethics commission confirmed that personal use of frequent flyer benefits would violate state law, unless those benefits were approved as a part of an employee's compensation.

Metro's policy made marketing rewards, such as frequent flyer benefits, a fringe benefit of employment. As a result, the audit recommendation to require employees to disclose any benefits received was no longer relevant (see #5 on page 5). Disclosure of benefits would only be required if employees were prohibited from using them for personal use.

Some recommendations were implemented but risks remain

Two of the original recommendations were implemented (see #2 and #6 on page 5) but they had a relatively small effect in the absence of a clear travel policy. Metro combined all personnel policies into a single document and made it available on its internal website. Some monitoring for compliance with policies was being done. However, lack of a clear policy reduced the effectiveness of monitoring.

Weak controls and inconsistent travel procedures present risks. Financial risks need to be managed to make sure Metro does not pay more than necessary for travel. About \$985,000 was spent on travel in the last two fiscal years (FY2013-14 and FY2014-15). That total includes transportation, lodging and meals. According to purchasing card records, at least 200 employees traveled on airlines during that time. There are also reputational risks associated with travel. Real or perceived violations of ethics policies or inadequate financial management can reduce trust in government.

## STATUS OF METRO AUDITOR RECOMMENDATIONS

| 2011 Recommendations  | Status             |
|---|--------------------|
| <b>To strengthen controls over travel practices and ethics, Metro should:</b>                                     |                    |
| 1. Develop a policy that clearly states Metro's position in regard to travel procedures and practices.            | NOT IMPLEMENTED    |
| 2. Consolidate all guidance into one document.  | IMPLEMENTED        |
| 3. Train coordinators and employees on policies and procedures.   | NOT IMPLEMENTED    |
| 4. Limit payment options for travel and only allow the use of personal credit cards under approved circumstances. | NOT IMPLEMENTED    |
| 5. Require employees to disclose any rewards that are received as a result of travel on Metro business.           | No longer relevant |
| 6. Monitor for compliance periodically.   | IMPLEMENTED        |





Date: Tuesday, February 23, 2016  
To: Brian Evans, Metro Auditor  
From: Tim Collier, Director of Finance and Regulatory Services  
Scott Robinson, Deputy Chief Operating Officer  
Subject: Management Response to follow up audit of Frequent Flyer Benefits program

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Thank you for the opportunity to respond to your follow up audit of Frequent Flyer Benefits program. The audit is very useful in helping us strengthen our travel policies.

Your follow up noted that we have not implemented a new travel policy since your original audit in 2011. While a policy has not been formally adopted at this time, we are as you mentioned currently in process and should be implemented in spring of 2016. Due to the revised procedure for policy adoptions, our adoption process can take longer than was originally envisioned. A key piece of this new policy is to combine all travel policy and procedures across Metro and Merc venues. This is consistent with your original recommendation. When the policy is formally adopted all employees will be required to read the policy and sign off that they have read and understand the policy. Also as you stated we have made progress on the audit recommendations, which we feel we have, even if we haven't yet implemented all of the original recommendations.

You also mentioned some concern with regards to the procurement card/personal card usage for travel. The majority of our travelers do have procurement cards and in order to receive those cards must go through the procurement card training program which specifically discusses travel related policies. As you mention we do allow the use of personal cards, to help maintain flexibility for the employee while travelling, but encourage travelers to use a Metro issued procurement card. While we do allow employees to use a personal card for travel, it is extremely rare and would require reimbursement from Metro for them to be repaid for their charges. In order for that to happen, a travel reimbursement form must be completed, receipts attached, it is then reviewed and signed off on by their supervisor, and then it is reviewed again in accounts payable for completeness and appropriateness before payment is made. While not a perfect system, we believe that the controls in place would catch any major policy violations, or would be able to explain why there was a violation necessary.

We continue to look for ways to improve our systems and give employees flexibility when they are travelling while maintaining the public trust. We believe the policy that will be adopted this spring will strengthen our current procedures.

Thank you again for your follow-up and recommendations for on-going improvement.