



## **Frequent Flyer Benefits:**

*More controls needed*

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March 2011

A Report by the Office of the Auditor

Suzanne Flynn  
*Metro Auditor*

Audit Team: Brian Evans, *Sr. Management Auditor*



Knighton Award  
for Auditing

### **Metro Audit Winner of ALGA 2009 Gold Award**

The Office of the Auditor has been awarded the Gold Award for Small Shops, which was presented at the 2010 conference of the Association of Local Government Auditors (ALGA) in San Antonio in May. The winning audit was the *Oregon Zoo Capital Construction* audit, completed in November 2009.

### **Metro Ethics Line**

The Metro Ethics Line gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any Metro or Metropolitan Exposition Recreation Commission (MERC) facility or department.

The ethics line is administered by the Metro Auditor's Office. All reports are taken seriously and responded to in a timely manner. The auditor contracts with a hotline vendor, EthicsPoint, to provide and maintain the reporting system. Your report will serve the public interest and assist Metro in meeting high standards of public accountability.

*To make a report, choose either of the following methods:*

**Dial 888-299-5460 (toll free in the U.S. and Canada)**  
**File an online report at [www.metroethicsline.org](http://www.metroethicsline.org)**



SUZANNE FLYNN

*Metro Auditor*

600 NE Grand Avenue

Portland, OR 97232-2736

(503)797-1892 fax: (503)797-1831

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## MEMORANDUM

March 24, 2011

To: Tom Hughes, Council President  
Shirley Craddick, Councilor, District 1  
Carlotta Collette, Councilor, District 2  
Carl Hosticka, Councilor, District 3  
Kathryn Harrington, Councilor, District 4  
Rex Burkholder, Councilor, District 5  
Barbara Roberts, Councilor, District 6

From: Suzanne Flynn, Metro Auditor 

**Re: Audit of Employee Travel Practices**

The attached report covers our audit of employee receipt of travel rewards. This audit was not in our FY2010-2011 Audit Schedule. It was added because of two Ethics Line reports regarding employees collecting personal frequent flyer miles for Metro travel.

Of the 40 travel records we reviewed from FY 2009-2010, we found 10 cases where personal frequent flyer accounts were recorded. It was clear from those we interviewed and after our review of Metro's policies and procedures that employees were not adequately informed of ethics rules.

We have discussed our findings and recommendations with Michael Jordan, previous COO; Dan Cooper, Interim COO; Scott Robinson, Deputy COO; Teri Dresler, General Manager, Visitor Venues; Margo Norton, Director, Finance and Regulatory Services; and Mary Rowe, Director, Human Resources. My office will schedule a formal follow-up to this audit within 1-2 years. We would like to acknowledge and thank the management and staff in the Departments who assisted us in completing this audit.



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## Table of Contents

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|  |    |
|--|----|
| Summary .....  | 5  |
| Background .....   | 7  |
| Scope and methodology .....  | 7  |
| Results .....  | 9  |
| <i>Travel awards collected across agency</i>   | 9  |
| <i>Policies insufficient to ensure consistency</i>   | 10 |
| <i>Policy should balance ethics requirements and<br/>    cost effective administration</i> | 11 |
| Recommendations .....  | 13 |
| Management response .....  | 15 |



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## Summary

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Elected officials and employees of Metro, including the Metropolitan Exposition and Recreation Commission (MERC), are prohibited by Oregon law from collecting and using frequent flyer miles and other travel benefits collected as an employee for personal travel. Since 2008, there have been two reports to Metro's Ethics Line about employees collecting frequent flyer miles when traveling on official business. As a result, this audit was added to the audit schedule.

A sample of travel records from FY2009-10 found that frequent flyer miles were collected on 10 of the 40 flights reviewed. None of the information we reviewed indicated that travelers were trying to hide these awards. Further, we found no evidence that employees used the frequent flyer miles for personal travel. Ethics laws would only be violated if an employee used their awards for personal, rather than business travel.

Metro had several documents containing information about travel and ethics. None of the documents we reviewed provided guidance to employees about prohibitions on travel rewards when traveling on Metro business. In general, we found guidance was not specific enough to ensure consistent management of travel across all departments.

In the absence of clear guidance, travelers and travel coordinators relied on past practices when they booked travel. In some departments, collecting travel benefits was strictly prohibited, while in others collecting these rewards was common practice.

Managing the complexities of ethics rules in relation to travel is challenging. Our research of other jurisdictions' policies highlighted the challenge of managing this issue. Rewards programs cover virtually every aspect of travel including airlines, car rental agencies, hotels and credit cards. Successful management requires a mix of policy guidance, employee disclosure, and monitoring. During the audit, we learned that Metro was in the process of updating its travel policy. We recommend that Metro further clarify policies and procedures and notify employees of travel expectations.





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## Background

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Since 2008, there have been two reports to Metro's Ethics Line about employees collecting frequent flyer miles when traveling on official business. As a result, this audit was added to the FY2010-11 audit schedule. Oregon law prohibits public officials, including elected officials and public employees, from receiving personal gain as a result of their position. The Oregon Standards and Practices Commission issued an opinion in 2001 that stated that travel rewards, including frequent flyer miles, are a personal benefit and should not be collected or used by public officials for personal travel. Elected officials and employees of Metro, including the Metropolitan Exposition and Recreation Commission (MERC), are public officials.

In fiscal year (FY) 2009-10, employees traveled by airplane at least 229 times on Metro business. These flights cost approximately \$90,000.

**Exhibit 1**  
Airline tickets by department  
FY2009-10

| Department                                   | Number of Tickets | Cost            |
|--|-------------------|-----------------|
| Oregon Convention Center*                    | 61                | \$26,177        |
| Oregon Zoo                                   | 32                | \$ 9,558        |
| Planning & Development                       | 29                | \$11,044        |
| Portland Center for the Performing Arts*     | 20                | \$ 9,442        |
| Council Office                               | 19                | \$ 5,784        |
| Research Center                              | 19                | \$ 7,282        |
| All others (seven departments, Expo Center*) | 49                | \$21,143        |
| <b>Total</b>                                 | <b>229</b>        | <b>\$90,430</b> |

Source: Auditor's Office analysis of Metro and MERC travel records.

\* Part of MERC

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## Scope and methodology

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The purpose of this audit was to determine what controls were in place to ensure Metro employees complied with ethics laws related to travel benefits.

Our objectives were to:

- Determine what policies, procedures and guidance were used to manage employee use of frequent flyer programs
- Determine if policies and procedures were consistently applied across Metro departments
- Determine what data was available to monitor frequent flyer use and manage associated risks; and
- Research best practices for managing employee use of travel benefits.

We conducted interviews with management and staff in the Finance and Regulatory Services department, as well as administrative staff who coordinate travel in several departments. We collected data from Metro's and MERC's accounting systems and reviewed travel documentation for a judgmental sample of trips taken in FY2009-10.

Additional information was gathered to provide reasonable assurance that fraud and/or abuse did not occur. We also reviewed information about the travel policies and procedures used by other jurisdictions.

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.

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## Results

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Metro employees and elected officials are prohibited by Oregon ethics laws from collecting and using frequent flyer miles and other travel benefits for personal use. A sample of travel records from FY2009-10 found that frequent flyer miles were collected on 10 of the 40 flights reviewed.

Metro's policies do not provide guidance to employees about how travel benefits should be managed to comply with Oregon law. Some employees who coordinate travel were knowledgeable about issues related to frequent flyer miles, while others were unaware. As a result, travel and ethics policies were inconsistently applied across Metro's departments.

Our research of other jurisdictions' policies highlighted the challenge of managing this issue. Rewards programs cover virtually every aspect of travel including airlines, car rental agencies, hotels and credit cards. Successful management requires a mix of policy guidance, employee disclosure, and monitoring to meet ethics requirements.

### Travel awards were collected across the agency

Frequent flyer miles and other travel benefits were collected by Metro employees in FY2009-10. This occurred across departments and facilities by employees at all levels of the organization.

**Exhibit 2**  
Travel records examined  
FY2009-10

| Record Source | Total Flights Taken | Sample Size | Frequent Flyer Number Listed |
|---------------|---------------------|-------------|------------------------------|
| Metro         | 131                 | 25          | 6                            |
| MERC          | 98                  | 15          | 4                            |
| <b>Total</b>  | <b>229</b>          | <b>40</b>   | <b>10</b>                    |

Source: Auditor's Office analysis of Metro and MERC travel records.

In addition, three records included documentation showing the traveler received awards when they made purchases using their personal credit card while traveling on Metro business. These awards included cash back, points or frequent flyer mileage rewards.

None of the information we reviewed indicated that travelers were trying to hide these awards. Moreover, ethics laws would only be violated if an employee used their awards for personal, rather than business travel. We found no evidence that employees used the frequent flyer miles for personal travel. During interviews, examples were provided about inadvertent collection of travel benefits. In the case of personal credit cards, it is nearly impossible to avoid collecting awards when purchases are made for legitimate business purposes. Nevertheless, Metro needs to provide clear guidance to employees and implement additional controls to avoid violations of ethics rules.

**Policies insufficient to ensure consistency**

Metro’s travel and ethics policies were not specific enough to ensure consistent management across all departments. Travel coordination and guidance was decentralized at Metro. None of the documents we reviewed provided guidance to employees about prohibitions on travel rewards when traveling on Metro business. Further, travel coordinators did not receive formal training to help them apply the various policy documents consistently. In the absence of clear guidance, they relied on past practices when they booked travel. In some departments, collecting travel benefits was strictly prohibited, while in others collecting these rewards was common practice.

Information about ethics related to travel was included in several documents. There were two separate travel policies. One was for employees at MERC and another for employees of Metro’s other departments. There were also two sets of policies and procedures related to procurement cards, which were commonly used for travel purchases. Metro Code and an Executive Order provided general guidance to all employees about ethics.

Some aspects of travel policies were no longer in force. For example, Metro’s travel policy states that all air travel should be booked through the agency’s travel agent. In practice, this requirement was discontinued several years ago as online travel reservations became popular. Other travel policies and procedures were changed, even though the policy itself had not been updated since 2002. During the audit, we learned that Metro was in the process of revising its travel policy. We reviewed a draft and found it to be clearer than the current policy. It states that employees are prohibited from “referencing personal travel reward plan numbers” and requires them to disclose any benefits received.

Our review of travel records indicated that other aspects of travel were also inconsistently managed because of policies that were outdated or not specific enough. As a result, Metro may have paid more than necessary for travel.

For example, we found hotel charges that were in excess of the rates published by the General Services Administration (GSA) and Internal Revenue Service (IRS). Metro policies don’t require travelers to adhere strictly to these rates, but they are commonly used in the public sector to determine the reasonableness of hotel and meal charges. MERC paid \$339 a night for a hotel room in Minneapolis when the GSA rate was \$120. Metro paid \$258 a night for a hotel in San Diego when the GSA rate was \$131. Some of these charges may have been appropriate, but there was no indication in the records that the travelers attempted to find less costly hotels. It is a good practice to provide an explanation for charges that may appear to be excessive.

Two other examples highlighted the impact of inconsistent application of travel policies. In one case, two employees attended the same conference. One employee reimbursed Metro when their hotel rate was \$37 per night more than the expected amount. Metro paid the full cost for the other employee's hotel, even though it was \$74 more than the hotel rate of the first employee.

In another case, an employee traveled to a conference under an agreement that they would personally pay for airfare and lodging with Metro paying for the conference fees. The employee used personal frequent flyer miles to pay for the flight. When the employee returned from the conference, a manager agreed to reimburse the employee for the flight and hotel costs. Metro reimbursed all the costs the employee incurred, including the estimated value of the frequent flyer miles. The travel record associated with this trip clearly stated that this was only approved due to exceptional circumstances. If travel policies would have been followed from the start, this situation would likely have been avoided.

These examples indicate inconsistent application of policies. Differences in costs may be appropriate in some circumstances. Travel policies at Metro and MERC allow flexibility for determining reasonable costs and rely on management to determine what is appropriate. Nonetheless, the examples show the potential cost savings that could be realized by more consistent management of travel expenses.

**Policy should balance ethics requirements and cost-effective administration**

Managing the complexities of ethics rules in relation to travel is challenging. There are many ways to receive travel benefits. Some benefits require active participation, like entering a frequent flyer number when booking a flight or providing a membership number when checking in to a hotel. At other times, benefits can accrue even if a traveler was not actively trying, such as when an employee uses a personal credit card that has rewards for each purchase or when an employee books travel using an established user account that may have the membership number automatically applied.

Our review of the travel policies used by other jurisdictions found some aspects of best practices, but also highlighted the difficulty of trying to create policies that address every possible issue that may come up. In general, effective travel policies and procedures for managing travel benefits need to have a mix of:

- Clear guidance and training
- Employee disclosure of benefits received
- Periodic tracking of rewards received; and
- Accountability when there is evidence of abuse

All these elements are needed to meet ethics rules, but Metro must also consider the costs to meet these ethics standards. The first step would be for Metro to update and consolidate its travel polices and related forms. There are many sources of information, but in their current form, it was very difficult to understand how the policies fit together.

The draft revised policy we reviewed seems to document current travel practices rather than provide guidance and controls to document how travel should be managed. The policy continues the practice of allowing each Department Director to act semi-autonomously and excludes elected officials even though they are subject to the same ethics rules as all Metro employees. It does not explain why travel benefits should not be collected. This management structure provides a lot of flexibility but limits the agency's ability to control costs, manage ethics risks and ensure consistent application of policies across the agency.

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## Recommendations

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To strengthen controls over travel practices and ethics, Metro should:


1. Develop a policy that clearly states Metro's position in regard to travel procedures and practices.
2. Consolidate all guidance into one document.
3. Train coordinators and employees on policies and procedures.
4. Limit payment options for travel and only allow the use of personal credit cards under approved circumstances.
5. Require employees to disclose any rewards that are received as a result of travel on Metro business.
6. Monitor for compliance periodically.







## Metro | Memo

Date: March 21, 2011  
To: Suzanne Flynn, Metro Auditor  
From:  Margo Norton, Director  
Tim Collier, Deputy Director  
Finance and Regulatory Services  
Subject: Management Response to Frequent Flyer Benefits Audit Recommendations

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We appreciate your recent Frequent Flyer Benefits review, a short audit prompted in part by Ethics Line reports. We are pleased that your review did not uncover any instances where Metro travelers used mileage rewards for personal travel. Your audit also uncovered some other areas of potential concern, and we will address them in our overall travel policy review.

Our response is submitted to you directly because of the recent departure of Michael Jordan and the temporary absence of the Acting Chief Operating Officer and the Deputy Chief Operating Officer. Both have participated in our discussions about this audit as have Teri Dresler, General Manager of Visitor Venues; Alison Kean Campbell, Acting Metro Attorney; and Mary Rowe, Human Resources Director. We have also had the opportunity to discuss your findings with the Senior Leadership Team to solicit their help in explaining and enforcing our recent travel advisory at the department level.

### **Travel Advisory Issued**

Without waiting for this audit to conclude, Finance and Regulatory Services issued a travel advisory to all Metro employees on February 25, 2011. A copy is attached, and the advisory is posted on the Metro intranet in the section containing information about travel authorizations and travel expense forms. It appears at the top of the page as:

#### **Travel Expenses Update**

Metro has issued new guidance on prohibited use of personal travel rewards programs, limited reimbursement for baggage fees, internet usage and personal telephone calls. Please review the **Travel Policy advisory** for more information.

### **“Awards” Programs Widespread**

Although not specifically reviewed in your audit, we are aware that “awards” programs are becoming a standard marketing strategy for major credit cards. Metro travelers who seek reimbursement for meals on a *per diem* basis frequently use personal credit cards, not cash. The use of a personal credit card issued by XYZ Airlines where most, if not all, purchases contribute to travel awards on XYZ Airlines is an obvious example where the prohibition is easily explained, understood and monitored. However, a personal Visa or Mastercard may offer more general awards or “points” which are more difficult to monitor. Credit card holders report that points received in these circumstances are *de minimis*. We will be considering how to address this in our updated travel policy.

## Response to Recommendations in the Auditor's Report

To strengthen controls over travel practices and ethics, Metro should:

1. Develop a policy that clearly states Metro's position in regard to travel procedures and practices.
2. Consolidate all guidance into one document.

Response: Metro has issued a travel advisory to address some of the more pressing issues immediately. Work is progressing on developing a comprehensive travel policy document, consolidating and standardizing, where possible, both MERC and Metro travel policies. Where there is a documented business need, the policies may vary. Once completed, all policies and forms will be easily accessible in electronic form in a designated place for all travelers.

3. Train coordinators and employees on policies and procedures.

Response: Metro has taken the travel advisory before the Senior Leadership Team and distributed it to all staff. After the official travel policy is completed and approved, we will distribute it to all employees and meet with management teams to explain the policy and answer questions. The expectation is that managers train their staff on an ongoing basis as provided for in the updated procedures.

4. Limit payment options for travel and only allow the use of personal credit cards under approved circumstances.

Response: Metro is investigating current procedures or programs that will allow us to administer this program easily as part of our ongoing p-card program review. The policy will need to address the widespread use of "awards" or "points" for general credit card programs and determine what circumstances warrant approval and are more cost beneficial than processing cash advances. We will then incorporate those findings into our travel policies.

5. Require employees to disclose any rewards that are received as a result of travel on Metro business.

Response: As part of the updated policies and forms review, Metro will update current travel forms for the employee to disclose any rewards they receive while on Metro business.

6. Monitor for compliance periodically.

Response: With the implementation of the systems mentioned above (pcards, newly developed forms, training) we believe that compliance monitoring will be a part of regular business processes.

We appreciate the time you and your staff took in conducting the audit and the insight that it provides for continuing our overall improvement efforts.

 **Metro** | *Memo*

Date: February 25, 2011  
To: Metro staff  
From: Tim Collier, FRS Deputy Director  
Subject: Travel Policy- Advisory

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Metro's travel expense policy is currently under revision. This advisory is being provided due to a recent increase in inquiries concerning the following specific travel issues.

Agency staff should adhere to the guidelines below until release of the revised travel policy.

**Travel awards:** Travel awards include any object or assignment of value awarded by a business providing credit, commercial transportation or lodging or other business product which can be used to reduce travel costs. Travel awards include, but are not limited to airline miles, hotel or car rental customer award bonuses, points, and free rental days or hotel stays.

The personal use of travel awards obtained from conducting public business is specifically addressed in the Oregon Government Standards and Practices Commission Advisory Opinion 01A-1006. The opinion states that the personal use of such travel awards constitutes personal gain and is in violation of ORS 244.040. As a result, Metro specifically:

- Prohibits individuals from referencing personal travel award plan numbers when Metro procurement cards are used to reserve or pay for business travel.
- Strongly discourages individuals from using personal credit cards that earn travel awards for payment of Metro travel expenses.
- Requires all individuals with redeemable award balances, earned as a result of Metro business travel, to redeem the balances for future Metro business travel.
- Prohibits use of the awards for any upgrades to airline tickets, hotel accommodations or other travel costs above the normal Metro standards.

**Government Discounts-Hotel Rooms:** Numerous hotels offer discounted room rates for government employees. Individuals should solicit and accept these discounts only when conducting Metro business. Metro employees are not permitted to solicit or accept government discounted rates for personal travel.

**Baggage Fees:** Airfare often includes additional costs for checked bags not covered in the base airfare. Additional costs for checked bags paid for by Metro are subject to the following limitations:

- Bags containing personal items: Limit of one bag for every five (5) working days of travel
- Bags containing items for conducting Metro business: As necessary with appropriate approval.

**Internet access:** Metro will provide travelers internet access for reasonable time necessary to conduct Metro business. No allowance will be provided for internet access via any personal mobile device (e.g.: smart phone, PDA, etc.).

Individuals will be required to present original itemized hotel bills detailing internet access fees not included in the standard room rate.

**Personal telephone calls:** Metro will provide travelers, without access to a personal cell phone, an allowance for personal telephone calls up to a maximum of \$10.00 per eligible day. Eligible days include the day of departure and every other subsequent full day of travel. No allowance is made for the final (returning) day of travel. No allowance will be provided for minutes used on any personal cell phone.

If internet access is necessary for Metro business and the traveler's hotel bundles local and long distance telephone fees with internet access fees: Metro will provide the traveler with internet access, but no additional allowance will be provided for personal telephone calls.

Individuals will be required to present original itemized hotel bills or telecommunications invoices for all personal telephone call expenses reported



**METRO**

Office of the Metro Auditor  
600 NE Grand Avenue  
Portland, Oregon 97232  
503-797-1892  
[www.oregonmetro.gov](http://www.oregonmetro.gov)