

Audit Report



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Audit of the Tuition Reimbursement Program Administered by Equity and Workforce Development

Report #0528

September 2, 2005

Summary

It is our opinion that, overall, disbursements for educational assistance between August 2004 and May 2005 for the 2004-05 academic year, were proper, correct, and otherwise in accordance with applicable policies and procedures.

This audit of the Tuition Reimbursement Program (Program) was conducted at the request of the Director of the Equity and Workforce Development (EWD) Department to provide assurance that (1) Program activities are being accomplished efficiently and in accordance with established policies and procedures and (2) Program funds are disbursed only for authorized purposes. EWD assumed responsibility for the Program, established to provide educational assistance to City employees, in August 2000. In the past four academic years, the City has disbursed Program funds in excess of \$181,000 to assist employees in their endeavors to increase their skills, knowledge, and abilities.

Educational assistance programs, similar to the City's Tuition Reimbursement Program, are provided by the State of Florida and Leon County for their employees. The City's Program and the state and county programs differ in several provisions including, but not limited to:

- Maximum annual benefits available to a participant.
- Reimbursement for books.

- Benefits for participants attending vocational courses.
- Pay incentives.

Appendix A of this report includes a comparison of the City of Tallahassee, Leon County, and State of Florida educational assistance programs.

Based upon responses to a survey, participants believe this program has benefited employees, as well as the City, by enhancing employees' performance and increasing employees' opportunities for consideration of advancement within the City's organization.

We reviewed transactions processed between August 1, 2004, and May 24, 2005, for educational assistance provided to employees during the 2004-05 academic year (fall 2004, spring 2005, and summer 2005 semesters). We noted that overall transactions were appropriately recorded in EWD records and documentation was maintained in EWD files to support compliance with established policies and procedures.

To further enhance and improve the program, we recommend that established procedures be revised and controls strengthened to:

- Ensure documented supervisory approval for employee participation.
- Ensure employee grades are substantiated by records (transcripts) produced by the applicable educational institutions.
- Ensure Program disbursements are

approved by the EWD director.

- Address and communicate vocational training alternatives available to employees.
- Clarify policy and communications to City employees related to:
 - o Participation in the Program by part-time employees, and
 - o Grades necessary for graduate students to be eligible for tuition reimbursement.
- Revise wording on the EWD CityNet website to state benefit threshold amounts that may be considered taxable income to certain participating employees.
- Identify Program performance and success through tracking of degrees/certifications earned by participants.

These issues and recommendations are further described in this report and have been discussed with management.

Scope, Objectives, and Methodology

The objectives of this audit were to determine if (1) the Tuition Reimbursement Program (Program) was administered efficiently and in accordance with established policies and procedures and (2) Program funds were expended only for authorized purposes.

To accomplish our objectives, we reviewed EWD Program records and transactions between August 1, 2004, and May 24, 2005, that were incurred for the purpose of providing educational assistance to employees attending various schools during the 2004-05 academic year (fall 2004, spring 2005, and summer 2005 semesters). EWD disbursement records were reconciled to actual transactions recorded in the City's accounting system and documented in the City's imaging system. We tested all transactions related to a sample of 21 of the 62 Program participants who attended

school during the 2004-05 academic year. We also surveyed 59 of those 62 participants to get information about their participation in the Program and their opinions about how the Program is operating.

Additionally, we reviewed the system of internal control established by management to provide reasonable assurance that amounts disbursed to schools and Program participants were proper, timely, and correct.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

Background

EWD assumed responsibility for the Program established to provide educational assistance to City employees in August 2000. The Program is designed to enhance employee performance and increase an employee's opportunity for advancement or career change.

While participating in the Program, eligible employees may receive financial assistance for education related expenses (e.g., tuition fees and books) while attending accredited schools and universities in pursuit of both undergraduate and graduate degrees. Additionally, employees attending accredited vocational schools have the opportunity to receive Program assistance.

Any employee desiring to participate in the Program must submit a supervisory-approved application to EWD. Based on evaluation of the application and the employee's eligibility, EWD either approves or disallows participation in the Program. Employees approved for participation in the Program are eligible to receive financial assistance for each academic year up to:

- \$750 for undergraduate courses; or
- \$1,500 for graduate courses.

Colleges and Universities

Eligibility. Regular full-time and regular part-time employees may receive educational assistance while attending colleges and universities if:

- The employee has successfully completed one year of continuous creditable service with the City of Tallahassee; and
- The employee is not receiving educational assistance from any other governmental or grant source.

Payments. Educational assistance may be provided to Program participants for eligible education related expenses. Eligible expenses include, but are not limited to, school fees (tuition, lab fees, and College Level Examination Program exam fees) and books. There are three fee payment options available to Program participants.

Option A - Employee pays all fees and eligible expenses and is reimbursed after grades are provided to EWD documenting successful completion of courses.

Option B – Employee pays all fees and eligible expenses and is reimbursed for school fees (e.g., tuition) within 30-45 days after submitting a fee receipt to EWD. Other eligible expenses (e.g., books) are reimbursed after grades are provided to EWD documenting successful completion of courses.

Option C – City prepays school fees to the applicable college or university. The employee pays other eligible expenses and is reimbursed for those expenses after grades are provided to EWD documenting successful completion of courses.

If a course is not successfully completed, or if the Program participant leaves the City prior to successfully completing a course, the Program participant must repay the City for any educational assistance funds expended on his/her behalf for that course.

Vocational Schools

Eligibility. To receive educational assistance while attending courses at vocational schools, an employee must:

- Be a full-time, permanent employee;
- Have completed the initial probationary period; and
- Not be receiving financial assistance for educational purposes from another governmental source, including tuition waivers and some grants.

Additionally, participation in courses provided through vocational schools during an initial probationary period is permissible upon written request of the employee’s immediate supervisor.

Payments. Disbursements are limited to Program participants’ tuition, registration, and administrative fees. Those payments are only made directly to the vocational schools. Books, equipment, and supplies are the responsibility of the Program participant.

If a course is not completed, or the employee leaves the City prior to completion of a course, the employee must repay the City for any educational assistance funds expended on his/her behalf for that course.

Program Participation

During the past four academic years, 288 City employees have benefited from participation in the Program. The majority of the individuals participating in the Program attended local accredited schools (e.g.,

Florida State University, Florida A & M University, Tallahassee Community College, and Lively Technical Center) while several attended classes or participated in online courses offered by accredited schools located outside of Tallahassee. In the most recent four academic years, the City provided a total of \$181,128 in direct educational assistance to the 288 Program participants.

Program Funds Expended for Educational Assistance			
Academic Year			
2004-05	2003-04	2002-03	2001-02
\$41,989	\$51,064	\$46,365	\$41,710
Total funds disbursed in the four-year period: \$181,128			

Comparison to State and County Programs

We are aware that educational assistance programs are provided by the State of Florida and Leon County for their employees. The City’s Program and the state and county programs differ in several provisions including, but not limited to:

- Maximum annual benefits available to a participant.
- Reimbursement for books.
- Benefits for participants attending vocational courses.
- Pay incentives.

Appendix A of this report provides a comparison of the City’s Program to those other two programs.

Employee Survey Results

As previously noted, we surveyed 59 of the 62 City employees that participated in the Program during our audit period. (Three participants no longer working for the City were not surveyed.) Thirty-nine of the 59 surveyed employees responded to our survey. One additional survey response

was received from an individual who had previously participated in the Program. The responses overwhelmingly indicated that employees believe that the City, as well as participating employees, benefit from the Program. The responding employees also believe that EWD Program staff generally provided timely and helpful information and assistance. A majority of respondents further indicated they had a good understanding of the Program and received reimbursements in accordance with the Program’s rules and regulations. In addition, the employees believed their supervisors were generally supportive of their Program participation. The primary suggestion for improving the Program was to increase funding. Appendix B of this report shows the detail of the survey results.

Issues and Recommendations

Overall, the Program has been properly and efficiently administered. EWD’s personal contact and communication with participants has played a large part in the Program’s successful operation. We noted several instances where the procedures established by EWD to process and administer the Program could be further improved.

- Approval by the employee’s supervisor for Program participation was not documented on 2 of the 28 applications tested. Requiring this supervisory approval assures EWD that management is aware of employees’ Program participation. We recommend that EWD staff ensure that supervisory approval is documented in all instances.
- Grades for courses attended are sometimes provided by Program participants in various forms (e.g., statements made by e-mail) rather than copies of transcripts from applicable educational institutions. To assure that

grades are appropriately recorded in EWD records and reimbursements are appropriately supported, only copies of grades (transcripts produced by applicable educational institutions) should be accepted as documentation of successful completion of courses.

- The director's signature stamp is currently being used by EWD employees to approve payment request forms. To appropriately segregate the duties of payment requests and payment approval, all payment request forms should be approved by the director.
- A search of EWD's CityNet site revealed a description of educational assistance benefits available to employees for vocational training. However, Chapter 704.07, Section E, of the City's Personnel Policies and Procedures Manual does not address the opportunity for employees to receive assistance when pursuing vocational training. While Chapter 704.07 Section E, does address employee educational assistance for colleges and universities, additional language relating to assistance for vocational training would provide helpful guidance to employees seeking vocational training. Accordingly, we recommend that appropriate language be added. (NOTE: In response to this issue, the EWD Director indicated that the policy would not be revised to address vocational training; however, requests for vocational educational assistance will be addressed on an individual basis.)
- Communications prior to the start of each semester of the academic year to alert City employees to the availability of the Program's benefits do not address vocational courses. Clearly describing and communicating the availability of educational assistance for vocational courses could further benefit City

employees. We recommend that vocational courses be addressed in those communications.

- In regard to college and university courses, clarifications need to be made to the City's Tuition Reimbursement Program. Currently, the policy for that Program specifies that (1) participation is available to both full-time and part-time regular (permanent and not temporary) employees and (2) a grade of "C" or above is required for reimbursement/funding by the City. However, the communications sent to employees by the EWD prior to the start of each semester provide that (1) only full-time permanent (and not part-time permanent) employees may participate and (2) graduate students must receive a grade of "B" or higher to get reimbursement from or funding by the City. We recommend that the EWD make the applicable clarifications and revise the policy and/or communications as appropriate.
- EWD's CityNet website describing the two types of financial assistance programs available to City employees makes two references to the possibility that employees should consider some educational assistance provided by the City as taxable income (rather than reimbursement of expenses). We noted that Internal Revenue Service Publication 15-B, *Employer's Tax Guide to Fringe Benefits for Benefits Provided in 2005*, provides that an employer may exclude from an employee's wages each year up to \$5,250 in educational assistance (including assistance for graduate level courses) provided to an employee under an educational assistance program. As the maximum benefits available to City employees are below that threshold, it does not appear that any of these benefits provided by the City should be considered taxable

income to participating employees. Accordingly, the noted references should be deleted.

- Currently, EWD does not formally track degrees and certifications earned by participants during their participation in the Program. Formal tracking of such accomplishments would provide management meaningful measures of Program performance and success. We recommend consideration be given to tracking these accomplishments.

EWD's action plan addressing these issues and recommendations is included as Appendix C of this report.

Conclusion

Based upon responses to a survey, participants believe this program has benefited employees, as well as the City, by enhancing employees' performance and increasing employees' opportunities for consideration of advancement within the City's organization.

While there are areas where improvements to strengthen controls and improve

communication with Program participants should be considered, it is our opinion that, overall, disbursements for educational assistance between August 2004 and May 2005 for the 2004-05 academic year, were proper, correct, and otherwise in accordance with applicable policies and procedures.

Appointed Official's Response

City Manager Response:

I want to thank the audit staff for the thoroughness of the audit of the Tuition Reimbursement Program and the recommendations for improving administration of said program. I am happy to report that the EWD has already completed all recommendations.

APPENDIX A

Comparison of City, County, and State Educational Assistance Programs				
		<u>City of Tallahassee</u> Educational Assistance, Tuition Reimbursement Program	<u>Leon County</u> Tuition Assistance Program	<u>State of Florida</u> Employee Educational Assistance Program
1.	Maximum annual benefits available to a participant.	\$750 for undergraduate level courses and \$1,500 for graduate level courses. (Includes tuition, books, and other eligible fees.)	No maximum. Participants may be reimbursed for tuition expense for all successfully completed classes.	Tuition and fee waiver for a maximum of six credit hours per term, which equates to 18 hours annually. For local institutions, charges for 18 hours of under-graduate courses range from \$1,008 to \$1,822; and for graduate courses from \$3,829 to \$4,025.
2.	Employees eligible to participate in the plan.	For colleges and universities, all regular (permanent) full-time and part-time employees that have been employed for more than one year. For vocational schools, all full-time, permanent employees who have completed the initial six-month probationary period.	Full-time employees, after successful completion of a six-month probationary period.	An individual employed by the State of Florida in a budgeted authorized full-time position of the executive, legislative, or judicial branch. A participant who resigns, terminates, or otherwise loses eligibility during an academic term will be eligible for the remainder of such academic term.
3.	Does the Program provide for some direct prepayment of tuition and fees to educational institution to eliminate employee out-of-pocket expenditures?	Yes However, employees have option to pay and be reimbursed.	No Employee must pay and be reimbursed after course is complete.	Yes Tuition and fees are waived.
4.	May participants be reimbursed for books?	Yes For college and university courses, if within annual benefit limitations.	No	No
5.	Does the Program provide benefits for participants attending vocational courses?	Yes	Yes	No
6.	Do course grades impact amount of benefits?	Yes 100% of allowable fees and books reimbursable only when grades are C or above, or "pass" in a pass/fail grading system. For vocational schools, student must successfully complete course.	Yes 100% of allowable costs reimbursable for grades of A or B, 50% reimbursable for grade of C, and 50% reimbursable for "pass" in pass/fail courses.	Not Applicable Tuition and fees waived.

APPENDIX A

Comparison of City, County, and State Educational Assistance Programs				
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7.	Do Program participants register for courses during schools' regularly scheduled registrations?	Yes	Yes	No State employees must attend a special registration and register on a "space available basis" at State colleges and universities. NOTE: Waivers are not accepted for some courses.
8.	Is approval required from the employees' supervisors prior to program participation?	Yes	Yes	Yes
9.	Are there circumstances where a participant must repay reimbursed or prepaid educational expenses?	Yes Participant must repay the City if a course is not successfully completed or City employment terminates prior to course completion.	Yes If reimbursement exceeds \$300, an employee must remain in County employment for six months after completion of last class reimbursed, otherwise the employee must repay the County 100% of amounts reimbursed. No repayment is required if reimbursements are less than \$300.	Not Applicable Tuition and fees waived.
10.	Have pay incentives been established for attainment of educational goals?	No While individual departments may reward employees that attain degrees/certifications, there is no Citywide incentive program.	Yes A 5% pay increase (<i>Educational Attainment Compensation</i>) is granted employees for each job-related degree above that required for a position. Up to 10% in <i>Educational Attainment Compensation</i> pay increases may be received by employees while in County employment.	No

APPENDIX B

Survey – Tuition Reimbursement Program Participants					
During the 2004-05 academic year (fall 2004, spring 2005, and summer 2005 semesters) the City of Tallahassee provided educational assistance valued at \$41,989 to 62 City employees. In order to gain an understanding of the benefits of this Program to both the City and its employees, we surveyed 59 of those 62 Program participants (3 were not surveyed as they are no longer employed by the City) to get information about their participation in the Program and their opinions about how the Program is operating. Responses were received from 39 of the Program participants surveyed and one individual who previously participated in the Program. (This equates to a 66% response rate.)					
Each respondent was asked to rate the following statements. The results are presented as a percentage of the total number of respondents.	Strongly Agree	Somewhat More Agree	Generally Agree	Somewhat Less Agreement	Strongly Disagree
1) I have benefited from participation in the Tuition Reimbursement Program.	90%	8%	2%	-	-
2) I believe the City has benefited from providing this Program to employees.	93%	7%	-	-	-
3) Timely responses are provided by Equity and Workforce Development staff to my requests/questions.	83%	10%	5%	2%	-
4) Equity and Workforce Development staff is helpful in answering questions and assisting when problems or issues arise.	85%	15%	-	-	-
5) My supervisor supports my participation in the Tuition Reimbursement Program.	73%	15%	7%	5%	-
6) Tuition/book reimbursements have been received in accordance with Program rules and regulations.	88%	10%	2%	-	-
7) I have a good understanding of the Tuition Reimbursement Program and the eligibility requirements of the Program.	83%	15%	2%	-	-
Additionally, respondents indicated: <ul style="list-style-type: none"> • Total college credit hours earned through overall participation in the Program ranged from 3 to 120. • Various certifications and undergraduate, masters, doctorate, and law degrees were being sought. • Future plans generally included continued City employment. (All but two respondents indicated that they planned to continue City employment.) Various comments from respondents were all positive in nature and included: <ul style="list-style-type: none"> • I am very appreciative of the Program. • This Program is great. It allowed me to go back to school with minimal expenses. I could not have done it without this Program. • Keep up the good work!!!! • The Program has been very customer friendly and the staff has always been very prompt. • I think the Program is very beneficial to both employees and the City. By offering this Program, it shows that the City takes pride in bettering their employees. Suggestions for improving the Program included: <ul style="list-style-type: none"> • Encourage more employees to take advantage of the free tuition. • Publish a calendar on the CityNet including important Program dates (deadlines). • Some type of recognition for those that have obtained their degrees via this Program, maybe in the City newsletter. • Tuition is increasing at such a high rate, if the City was willing to increase benefits to at least one course and books per semester it would be a huge help. • Encourage Division Directors' approval of participants' (educational) vacation time to attend classes. • The only change I would suggest, that the City of Tallahassee increase the funds for this Program. • As a part-time student (1 class per semester) it will take some time for me to finish. It is difficult to maintain your momentum when the Program runs out of money and I have to skip semesters. Not to mention extending an already lengthy process. • Increase funding, create promotion incentives. 					
NOTE: The most frequent suggestion related to increasing funding and/or benefits of the Program.					

APPENDIX C

ACTION PLAN		
Action Steps	Responsible Employees	Target Date
1. Establish procedures to require documentation of supervisory approval on all employee applications for participation in the Tuition Reimbursement Program. Applications will not be accepted without evidence of supervisory approval.	Sharon Ofuani	9/01/05*
2. Establish, and communicate to Program participants, procedures to require that documentation supporting the successful completion of courses should be in the form of copies of transcripts or grades provided by schools, colleges, and universities. No other documentation will be acceptable.	Sharon Ofuani	9/01/05*
3. Segregate the payment request function and the payment approval function between applicable employees during the process established to disburse City funds. The EWD Director’s signature stamp will no longer be used to document approval of check requests.	Sharon Ofuani	8/10/05*
4. Include in communications sent to employees before the start of each semester, instructions relating to obtaining tuition assistance for attendance at vocational schools.	Sharon Ofuani	8/12/05*
5. Clarify the Program policy for college and university courses as to participation by permanent part-time employees and grade requirements for graduate courses. Revise the policy and/or communications sent to employees based on those clarifications.	Sharon Ofuani	8/12/05*
6. As the IRS threshold for considering educational assistance “taxable income” is well above the maximum amount provided to Program participants, revise EWD’s CityNet site to delete the reference to tuition reimbursement being considered, in some case, taxable income to Program participants.	Sharon Ofuani	8/22/05*
7. Establish a system to track degrees/certifications earned by Program participants.	Sharon Ofuani	8/12/05*

*As per department, action plan step has been completed as of indicated date. Completion will be verified during follow-up process.

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