



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#124073

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DATE: 12/06/2016

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE HUMAN RESOURCES DEPARTMENT'S TUITION REIMBURSEMENT PROGRAM**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of the Human Resources Department's Tuition Reimbursement Program.

BACKGROUND:

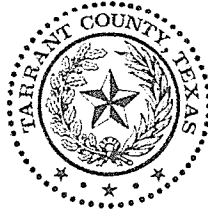
In accordance with Local Government Code, Section 115.001, Examination of Records, the Auditor's Office reviewed internal controls over the Tuition Reimbursement Program for the period January 1, 2015 through June 30, 2016. The objective of the review was to provide reasonable assurance that the program was administered in accordance with established policies and procedures and federal guidelines.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell
APPROVED BY:



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November 15, 2016

Ms. Tina Glenn, Director, Human Resources
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

RE: Auditor's Report – Tuition Reimbursement Program

SUMMARY

In accordance with Local Government Code, Section 115.001, *Examination of Records*, we reviewed internal controls over the Tuition Reimbursement Program for the period January 1, 2015 through June 30, 2016. The objective of our review was to provide reasonable assurance that the program was administered in accordance with established policies and procedures and federal guidelines. Procedures used to track and record tuition reimbursement is a manual process which makes it difficult to track and administer. We recommend Human Resources collaborate with the Auditor's Office and the Information Technology Department to determine whether the SAP *Employee Self Service* portal would be an effective solution for employees to submit and track tuition reimbursements. During our review, we also identified the following issues that require management's attention:

- Observation 1 Payments for tuition reimbursements did not always comply with the policy.
- Observation 2 Detailed operating procedures for the administration of the program were not adequately documented.
- Observation 3 The tuition repayment process for employees who terminate County employment was not well defined.
- Observation 4 Tuition reimbursements exceeding the tax-free limit were not reported as required by IRS Publication 970.

We discussed these observations and recommendations with the Human Resources staff during our review.

BACKGROUND

Tuition Reimbursement is a benefit offered to regular full-time, non-probationary employees for direct tuition expense reimbursement of up to eight courses per year. The Tuition Reimbursement Program, which began in 1998, is designed to:

- Enhance the qualifications and improve the productivity of County employees;
- Motivate employees to improve their job-related knowledge and skills; and
- Encourage the hiring, retention, and promotion of qualified, well-trained personnel.

The Director of Human Resources, under the supervision of the County Administrator, supervises the administration of the program. The Human Resources Staff Development Officer is responsible for managing the program in accordance with established policies.

The program is subject to availability of funds as appropriated by the Commissioners Court through the annual budget process. See program financial highlights listed below:

Tuition Reimbursement Program Financial Highlights		
Fiscal Year	Budgeted Expenditures	Actual Expenditures
2015	\$200,000	\$123,122
2016*	\$200,000	\$127,425
Total	\$400,000	\$250,547

**Through June 30*

A total of 124 participants benefited from the program during the audit period. According to Human Resources, Commissioners Court recognized 46 employees in 2016 who have earned degrees utilizing the Tuition Reimbursement Program. Since the Tuition Reimbursement Program began in 1998, over 700 County employees have received tuition reimbursements.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 Payments for tuition reimbursements did not always comply with the policy.

Background

Employees must submit an application for approval of courses prior to the beginning of a term. Then upon completion of a course, employees must provide itemized tuition receipts and evidence of satisfactory course completion. Reimbursements are calculated based on rates established by Human Resources, direct tuition expenses, and grades. Employees are required to complete two years of continuous employment following the last class date in which the individual received tuition reimbursement. An employee who leaves County service prior to meeting this program requirement must repay the last two years of reimbursements received. The policies were last revised and approved by Commissioners Court in 2008.

Observations

During our review, we observed that payments for tuition reimbursements did not always comply or have the information necessary to demonstrate compliance with the policy. Specifically:

- The policy states that courses offered by an accredited junior college, college, university, or trade school must be located within the geographic region served by the North Central Texas Council of Governments, including on-line courses. The policy also states that an employee will be reimbursed up to a maximum of eight courses per calendar year. We identified five employees who received reimbursements totaling \$21,863 for courses completed at post-secondary institutions that are not served by the North Central Texas Council of Governments (e.g. Kaplan, Grand Canyon University, Capella, and Thomas Edison State College). We also observed one of the five employees completed and received reimbursement for 10 courses in calendar year 2015.
- The policy requires that the application form include a description of the employee's career goals and how the course directly relates to those goals. During our review, we identified payments made for two courses that we could not determine the relevancy and relationship to the employees' career goals. Documentation to support the employees' career goals had not been obtained prior to payment as required.
- The policy requires program participants to submit applications and supporting documentation no later than five calendar days before class begins. We identified three employees who submitted applications for course approval between 7 – 23 days after classes had begun.
- The policy requires itemized receipts showing tuition and fees separately for proof of payment. The policy also states receipts showing lump sum amounts are not acceptable. During our review, we identified payments made for two courses without an itemized receipt. According to Human Resources staff, Tarrant County College (TCC) does not charge for fees and the lump sum amount was specifically for tuition. They also indicated the amount was consistent with the \$55 per credit hour. However, there was no documentation maintained to support the rate charged by TCC.

Recommendations

Annually, Human Resources management should review the Tuition Reimbursement Program policy for relevancy and update the policy as necessary. Furthermore, management should provide oversight to ensure that tuition reimbursements are adequately supported with the information necessary to process payment.

Observation 2 Detailed operating procedures for the administration of the program were not adequately documented.

Background

A policy is typically a formal, brief, and high-level statement for goals and objectives of a program area. Procedures should guide the activities (e.g., who does what, when they do it) and define the “how” to enforce the policy (i.e. the criteria).

Observations

During our review, we observed that detailed operating procedures for the administration of the program were not adequately documented, allowing for varied interpretation of the policy. For example:

- The policy states the Director of Human Resources will establish rates annually on September 1st and that reimbursements will be based on rates established by the University of Texas at Arlington. However, there is no additional guidance on how the calculation of the reimbursement should be performed. During our review, the Director of Human Resources could not provide documentation for the reimbursement rates used prior to fall 2015. Therefore, we were unable to validate the accuracy of reimbursements made to employees prior to the 2015 fall term. We also observed reimbursements that were computed based on rates for total hours and not individual course hours, which could result in higher reimbursements.
- Although the policy requires that the employee provide documentation for tuition paid and grades earned with the request for reimbursement, the policy does not specify acceptable documentation. The following types of support were accepted for reimbursement:
 - a) As support for a grade earned, an employee submitted a typed letter that was not on school letterhead. The name on the signature line was a school official, but the letter was not signed.
 - b) As support for a grade earned, an employee provided an email that appeared to be from a school official, but the message was from an America Online email account, and not a university authenticated email account.
 - c) As evidence of tuition paid, an employee took a photo of a computer screen. The printed photo was so illegible that Human Resources inadvertently reimbursed the employee \$150 less than the amount shown in the photo.

Detailed operating procedures guide activities and provide assurance that the policy is applied accurately and consistently. Furthermore, detailed documented procedures help to eliminate the risk an employee will be over- or underpaid.

Recommendations

We recommend Human Resources management document detailed operating procedures for the administration of the Tuition Reimbursement Program. Furthermore, management oversight should exist to ensure compliance with the program and documentation procedures.

Observation 3 *The tuition repayment process for employees who terminate County employment is not well defined.*

Background

Program guidelines state, “*Employees who terminate their employment with the County within two years of the last class day of the course(s) shall reimburse the County for those course(s) upon termination of employment.*” Human Resources is responsible for manually calculating the amount owed to the County.

Observations

The tuition repayment process for employees who terminate County employment is not well defined. Specifically, the policy does not state *how* repayment of any tuition paid to the employee will occur in the event of the employee’s termination or other ineligibility. Also, standard operating procedures related to collection efforts have not been well defined. During our review period, ten employees received tuition reimbursements and left County service prior to the fulfillment of their two-year employment agreement. For those ten employees, we found that:

- Two employees terminated employment with the County in April and May 2016. Both employees signed promissory notes and accounts receivables were recorded. However, no monthly payments have been received per the terms of the promissory notes.
- For one of the two employees described above, Human Resources made an error in calculating the amount owed by the employee. Therefore, the amount owed on the employee’s promissory note and the recorded accounts receivable was \$300 short.
- Human Resources did not notify the Auditor’s Office of one employee’s resignation in April 2016, and therefore, an accounts receivable was not established for the employee’s financial obligation totaling \$2,989. When the auditor communicated this issue, Human Resources obtained a signed promissory note from the employee and an accounts receivable was recorded on September 1, 2016.

Recommendations

Human Resources should revise and clarify the *Revocation of Benefit* section of the policy. In coordination with the Auditor’s Office, we also recommend Human Resources implement and document procedures to ensure receivable accounts are established for the correct amounts and the County is in receipt of agreed-upon payments. Procedures should also include an action plan if attempts to collect funds are unsuccessful.

Observation 4 Tuition reimbursements exceeding the tax-free limit were not reported as required by IRS Publication 970.

Background

According to IRS Publication 970, an employer who pays an employee more than \$5,250 annually in educational assistance benefits must report the excess amount as additional income on Form W-2. If an error is discovered, the error must be corrected within 30 days. The statute of limitations for correcting an error is three years. The deadline for correcting the 2013 wages is April 15, 2017.

Human Resources is responsible for approving and tracking tuition reimbursement payments to employees. The County Auditor's Office is responsible for reporting to the IRS compensation paid by the County.

Observation

We observed that tuition reimbursements exceeding the tax-free limit were not reported as required by IRS Publication 970. The County disbursed tuition reimbursements totaling \$26,975 to 15 employees that was not reported on the employees' Form W-2 as additional income during calendar years 2013 and 2014. This condition occurred because the Tuition Reimbursement Program did not address IRS requirements related to educational assistance benefits and procedures to track tuition reimbursement payments were not always adequate.

Upon discovery of this issue, the Auditor's Office took immediate corrective action and adjusted the 2015 W-2 wages. The Auditor's Office also added a new wage type to SAP to monitor tuition reimbursements made to County employees during the calendar tax year. The Auditor's Office contacted the individuals impacted for calendar years 2013 and 2014, and will amend wages as required.


Recommendation

Human Resources should revise the policy to specifically include federal tax implications when a reimbursement made to an employee is greater than the tax-free amount allowed by the IRS.

CLOSING REMARKS

We appreciate the cooperation of the Human Resources staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,

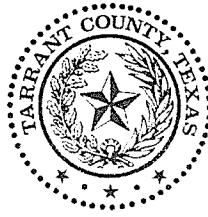


S. Renée Tidwell, CPA
County Auditor

Attachment:
Management's Response

Distribution:
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Kara Hoekstra, Internal Auditor



TARRANT COUNTY

Department of Human Resources
Tina T. Glenn
Director

Civil Service
Administration

November 28, 2016

Ms. Renee Tidwell, CPA
County Auditor

Subject: Management Response to the Tuition Reimbursement Program Audit Findings

General Response:

In November 1994 the Commissioners Court approved a Tuition Reimbursement Program for eligible County employees. The program was initially administered under the direction of Gerald Wright and currently under the direction of Tina Glenn. Since its initial implementation every effort has been made to ensure that the policy has been consistently followed. There have been no intentional violations of policy. Our process is mostly manual; that is, currently there are no electronic means of tracking the various pieces of information for this program. It is acknowledged that some errors were made during the time frame covered by this audit.

Observation 1: Payments for tuition reimbursements did not always comply with the policy.

1. The employees in question all received eligible reimbursements for on-line courses. The statement limiting "...participation to colleges residing in the area served by NCTCOG..." was part of the original policy adopted in November 1994, long before on-line courses were available or prevalent. Audit has recommended and, we agree, that the language "within the geographic region served by the North Central Texas Council of Governments" be removed from the policy.
2. We agree that a description of an employee's career goals as well as a degree plan, if applicable, should be submitted with the application so that course relevancy and eligibility can be easily verified.
3. All employees cited in this example were working on degree plans. In accordance with our policy all employees completed new applications each term. We acknowledge that some applications were submitted and processed after the

established deadlines. That was an oversight and should not have occurred. Greater attention will be paid to ensure that no similar violations occur.

4. Our policy does require itemized receipts. In the example cited, however, the employee provided a lump-sum receipt instead of the typical itemized receipt. This employee was enrolled at Tarrant County College (TCC) and only tuition rates are shown on their receipts. The lump sum amount was consistent with the tuition rate for TCC (\$55 per credit hour) at the time in question. That said, we will ensure that every TCC reimbursement request is accompanied by documentation of the hourly rate in effect at that time.

Observation 2: Detailed operating procedures for the administration of the programs were not adequately documented.

1. From the outset, tuition reimbursement rates have been based on tuition rates charged by the University of Texas at Arlington. Periodically these rates change. The exact tuition rates or “an estimation of those rates” have always been used. In 2008 UTA discontinued providing itemization of tuition and fees and labeled the new rate as “flat rate tuition.” There was discussion with the Commissioners Court about UTA’s adoption of a flat rate tuition structure in 2008. That discussion is referenced in Court Order 103953 (9/16/2008) along with direction from the Court to calculate estimates of tuition costs. To determine the amount of fees included in the Flat Rate Tuition, itemized receipts from the previous term were examined. Our examination revealed that fees represented approximately 27% of the flat rate tuition. Consequently, tuition reimbursements were estimated to be 73% of the flat tuition rate.

Until the fall of 2015, an “estimated” amount was used as the maximum tuition reimbursement rate: \$795 per undergraduate course (three credit hours) and \$945 per graduate courses (three credit hours). In the fall of 2015, UTA returned to the practice of providing itemization of tuition and fees. When this was discovered, the new rate had not been announced to participating employees. It was determined that January 1, 2016 would be the effective date of the new tuition rate. This allowed sufficient time to notify participants of the rate change.

2. It is accurate that the policy does not specify what acceptable documentation for grades or account information is. Acceptability has been determined based on legibility and apparent authenticity of the documentation. We agree that the examples cited are problematic.

Observation 3: The tuition repayment process for employees who terminate County employment is not well defined.

The "Revocation of Benefit" clause was added to the policy effective September 2008. It was that revision that led to the need for a process/procedure to handle situations involving employees leaving County service prior to the two-year work requirement.

There is an established procedure related to tuition repayment by those who terminate County employment. The procedure was developed and implemented after the last revision of the policy and is, therefore, not included in the policy. Staff from Human Resources and Audit work together closely when the revocation clause is triggered. We identify "revocation" cases and then notify Audit staff. Specifically, Human Resources creates and issues a promissory note and then notifies Accounts Payable so that an accounts receivable can be created for receipt of the anticipated payment.

We will submit a policy revision to the Commissioners Court to make part of the policy the procedure stated above. The procedures will include an action plan if attempts to collect funds are unsuccessful.

Observation 4: Tuition reimbursements exceeding the tax-free limit were not reported as required by the IRS Publication 970.

We agree that the policy should be amended to address federal tax implications when reimbursements exceed the tax-free amount allowed by the IRS.

ADDENDUM

It should be noted that the Tuition Reimbursement Program process has mostly been a manual process. In recent discussions with Information Technology it was suggested that we might be able to leverage SAP to help better manage the Tuition Reimbursement Program. We are excited about this possibility and plan to schedule time to discuss this with IT in the near future.

Sincerely,

A large grey rectangular redaction box covering the signature area.

Tina Glenn
Director of Human Resources