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OIG Memorandum

TO: J. T. Hanson, CEO
J. M. White, CFO

FROM: D. J. Aubrey, Inspector General

SUBJECT: Annual Review of Executive Expenses

DATE: November 21, 2018

The Office of the Inspector General (OIG) has recently completed its Annual Review of Executive Expenses.

A. Objective / Scope

The objectives of our review included:

- 1) evaluating compliance with established policies, procedures, and guidelines;
- 2) assuring expense reimbursement requests only reflect allowable and approved transactions, while evaluating transactions for potential fraud, waste abuse;
- 3) assuring requested reimbursements are accurate, approved, and paid correctly; and,
- 4) assuring expense documentation / files are properly maintained and retained.

The scope of our review focused on expense reimbursement activity for the year 2017 associated with the Authority's Commissioners, Officers, Chiefs, and Directors.

B. Background

Policy #400, Expense Reimbursement for Employees and Board Members, was referenced by OIG to evaluate and determine compliance based objectives.

During the Year 2017, 24 executive level employees submitted and received expense reimbursements. 2017 executive expenses were associated with 115 transactions, valued at \$12,737, and were deemed minimal in comparison to the total transactions processed by the Authority (see *Charts A and B below*).

CHART A

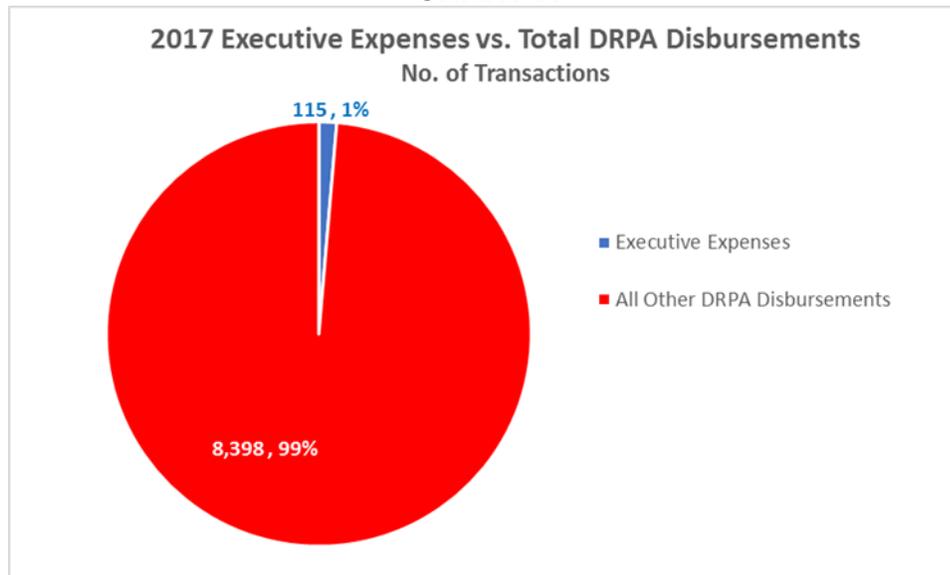
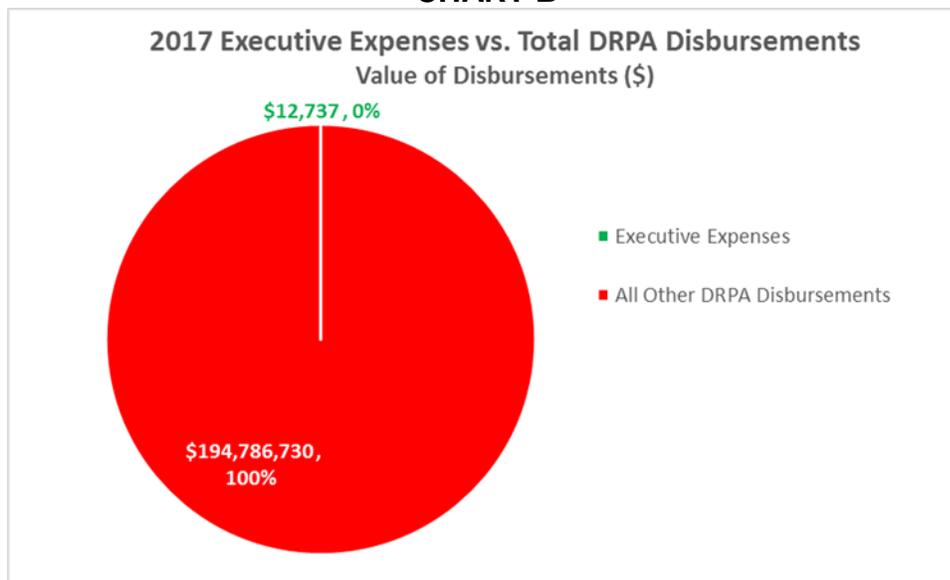


CHART B



2017 executive expense transactions were primarily associated with travel related expenses (ex. mileage, parking, tolls, train fare, etc.), as well as business expenses pertaining to the renewal of professional licenses / memberships, and registration for professional training (see *Charts C & D below*).

CHART C



CHART D



C. Summary of Results

Based on the completion of our review our Office determined that 2017 Executive Expenses were minimal in value, were associated with legitimate and allowable business expenses, and were found in good order. The following results were determined and communicated:

- the expense reimbursement process, as it relates to executive expenses, continues to operating effectively and efficiently, and it was found in compliance with established policy with minimal exception;
- reimbursed executive expense documentation was properly maintained and available;
- in general, executive expense reimbursement request forms were accurate, approved, and paid correctly with few exceptions; and,
- supporting documentation (i.e. invoices, receipts, etc.) reviewed reflected legitimate and allowable business transactions. No transactions indicating fraud, waste, or abuse were observed.

Opportunities for improvement were noted during the audit and the following highlighted and summarized findings were communicated:

- all identified executive expense transactions submitted and processed during the year 2017 by Authority Commissioners, Officers, Chiefs, and Directors (115 transactions, \$12,737) were subject to review. No expense reimbursement requests were submitted by Authority Commissioners;
- all expense reports submitted by Officers, Chiefs, and Directors, were deemed acceptable and represented legitimate business related expenses;
- all executive expense reimbursement transactions reviewed were supported by an employee expense reimbursement report within SAP;
- formal documented approvals were observed for 112 (97%) of the 115 expense reimbursement transactions processed during 2017 and reviewed by OIG. Formal documented approvals were not observed on three (3%) transactions reviewed;
- current Policy #400, *Expense Reimbursement for Employees and Board Members*, does not specifically indicate the approval requirement as it relates to the CEO expense reimbursement requests; and,
- current Policy #400 also does not require the submittal of the itemized credit card receipt documentation when requesting reimbursement of expenses involving the use of personal credit cards.

The reported results, including the findings and recommendations were communicated to CEO J. Hanson and CFO J. White, as well as the Manager, Budget, and respective Directors, Finance from both DRPA and PATCO, in advance of this report, and for the purpose of obtaining their comments and management responses to the proposed recommendations.

D. Audit Recommendations

As a result of our review, OIG recommends the following:

Audit Finding #1:

Formal documented approvals were observed for 112 (97%) of the 115 expense reimbursement transactions processed during 2017 and reviewed by OIG. Formal documented approvals were not observed on three (3%) transactions reviewed. The source documentation reviewed by OIG was attached to the specific processed transactions within SAP. (Note: CFO J White's initials were noted on two of the three attached expense documents).

Audit Recommendation #1:

OIG recommends assuring compliance with Policy #400, Expense Reimbursement for Employees and Board Members (attached), and the Expense Report form approval requirements. If the appropriate level of approval is not documented, the expense reimbursement request should be returned to the submitter to obtain the proper documented approval prior to further processing. (As it relates to the approval of CEO expenses, also see Recommendation #2 below).

Management Response #1:

The CFO concurs with the findings and recommendation and will immediately reinforce the procedural requirement that all employee expense requests must be approved by the appropriate level of Authority management prior to processing for payment with his staff at One Port Center and at PATCO headquarters. If an employee expense reimbursement request form does not have the proper documented approval the reimbursement request will be returned to the submitter to obtain the proper approval prior to further processing. The CFO will include OIG on the email documenting the communication reinforcing this expectation.

Audit Finding #2:

Current Policy #400, Expense Reimbursement for Employees and Board Members (attached), does not specifically indicate the approval requirement as it relates to the CEO expense reimbursement requests. OIG observed approvals of the CEO related expenses from DCEO M. Wing and CFO J. White.

Current Policy #400 also does not require the submittal of the itemized credit card receipt documentation when requesting reimbursement of expenses.

Audit Recommendation #2:

OIG recommends that Policy #400 be amended to include the specific approval requirements for CEO related expense reimbursement requests, and further recommends the approval requirement be either the DCEO or the CFO (electronic approval and / or hand-written signatures). (In addition, CEO expenses will be reviewed annually by the OIG as part of the Annual Review of Executive Expenses). OIG further recommends that Policy #400 be amended to include the requirement that when using a personal credit card to transact business subject to reimbursement, the itemized detailed receipt must accompany the reimbursement requests reflecting what was

procured. Without this level of documented detailed information an effective review and approval process cannot be performed.

Management Response #2:

The CEO and CFO concur with the findings and recommendation, and approve the OIG to pursue the recommended Policy #400 revisions with the Authority's CAO and Director, HRS.

Audit Finding #3:

On two occasions, expenses were approved, processed, and paid that involved the payment of late fee penalties for renewal / maintenance of professional licenses, as the employees did not process their renewals on time.

Audit Recommendation #3:

While the value of the late fee penalties was minor in nature, OIG recommends that the Authority is not responsible for paying the additional late fee penalty expense for failure of the employee to submit their renewals in a timely manner.

Management Response #3:

The CEO and CFO concur with the findings and recommendation, and approve the OIG to pursue the recommended Policy #400 revisions with the Authority's CAO and Director, HRS.

OIG wishes to thank J. Hanson, CEO, J. White, CFO, O. Parker, Manager, Budget, as well as all Authority management and personnel who participated in this review, for their assistance and cooperation.

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