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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 (2019 Activity)

DATE: August 5, 2020

The Office of the Inspector General (OIG) has recently completed our Annual Review of Executive Expenses. This review was performed by Mark Zitzler, Auditor.

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;
- 4) assuring expense documentation / files are properly maintained and retained; and,
- 5) assuring expenses processed using the employee expense reimbursement process are not duplicated with Procurement Card (PCard) purchases.

The scope of our review focused on expense reimbursement activity for the year 2019 associated with the Authority’s Commissioners, Officers, Chiefs, and Directors. PCard usage and associated expenses transacted during 2019 for those executives who are Authority PCardholders was also analyzed.

B. Background

Policy #400, *Expense Reimbursement for Employees and Board Members* was referenced by OIG to evaluate and determine compliance-based objectives. This policy was updated effective February 22, 2019.

During the Year 2019, 22 executive level employees submitted and received expense reimbursements. 2019 executive expenses were associated with 142 transactions, valued at \$20,706 and were deemed minimal in comparison to the total transactions processed by the Authority (see *Charts A and B below*).

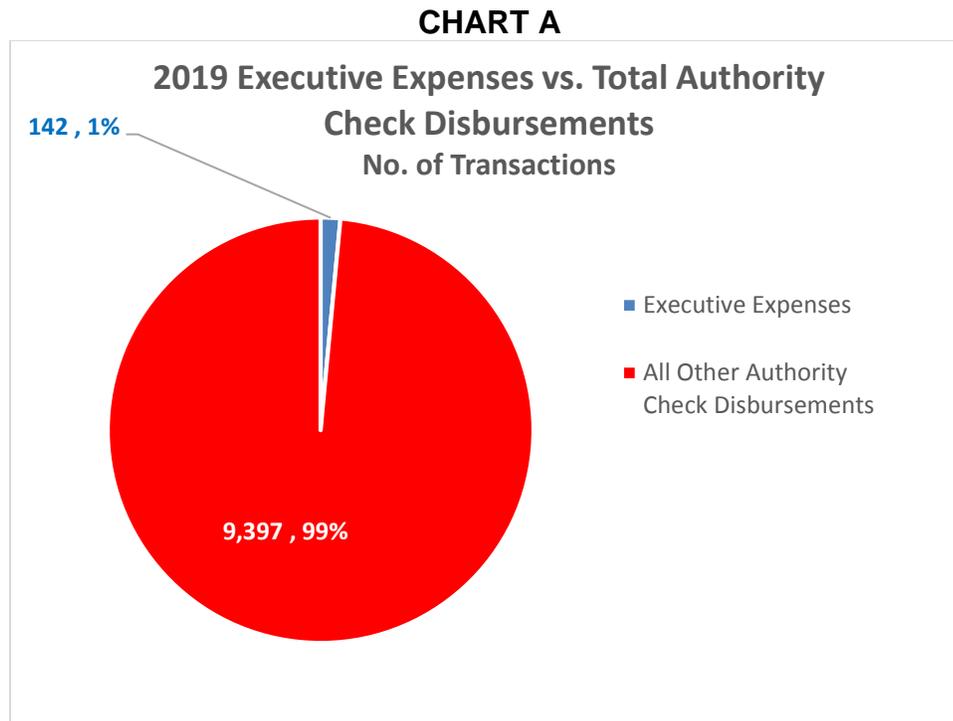
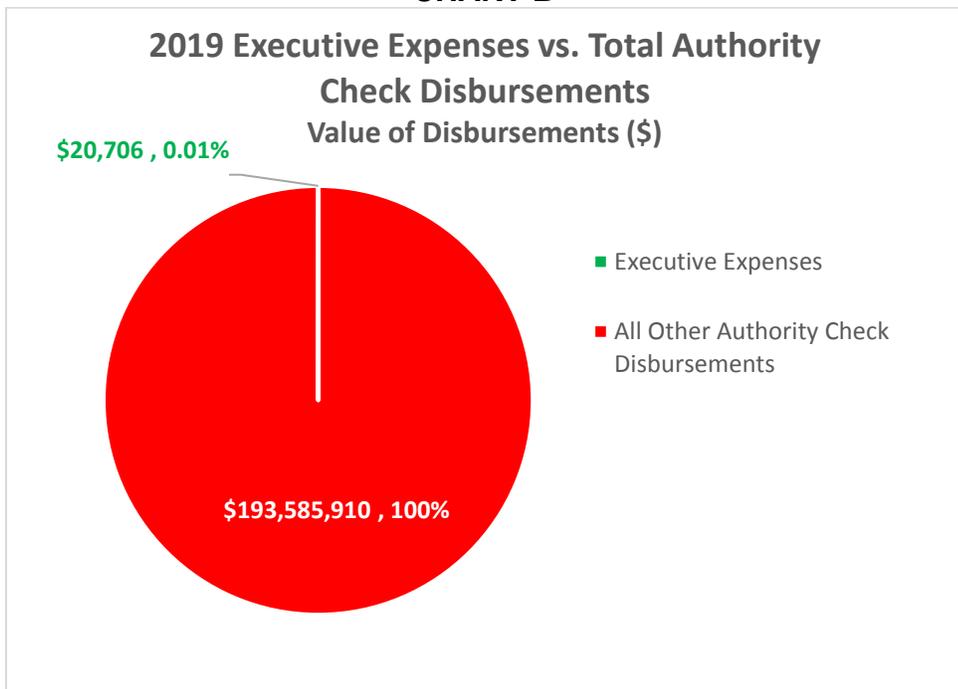


CHART B



2019 executive expenses were primarily related to travel expenses (ex. mileage, parking, tolls, hotel, etc.), as well as business expenses pertaining to registration for professional training / tuition reimbursement, and the renewal of professional licenses / memberships (see *Charts C & D below*).

CHART C

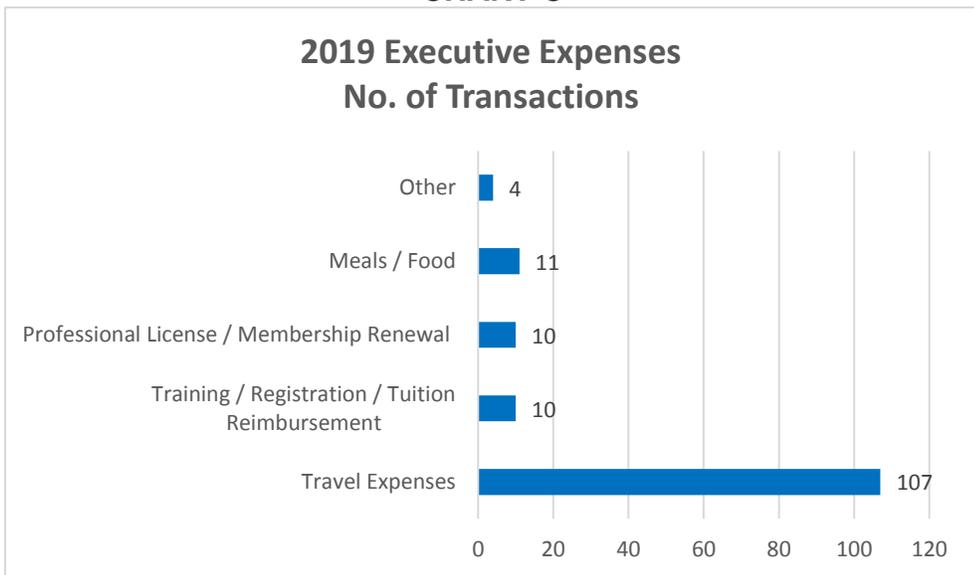
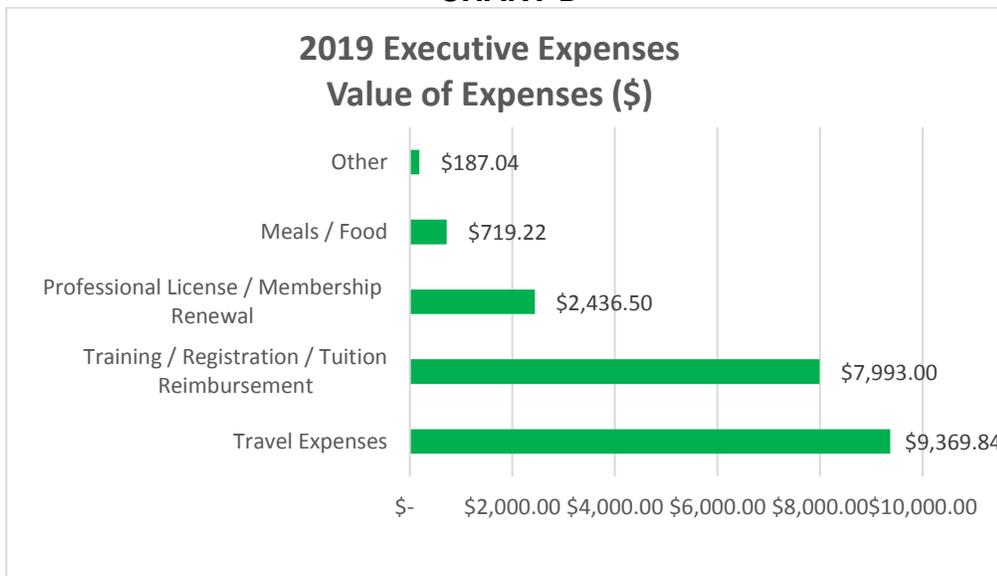


CHART D



The executive expenses increased \$6,953 (34%) to a total of \$20,706 in 2019 from a total of \$13,753 in 2018. This is largely due to an increase in training/registration/tuition related costs from \$2,490 in 2018 to \$7,993 in 2019.

2019 PCard usage for Director level and above PCardholders reflected 998 transactions valued at \$479,067, which represented 16% and 28% of the total 2019 Authority PCard transactions and transaction value, respectively. A total of 16 executive level employees who have authorized PCard privileges used their PCards during the year 2019. (see *Charts E & F below*).

Chart E

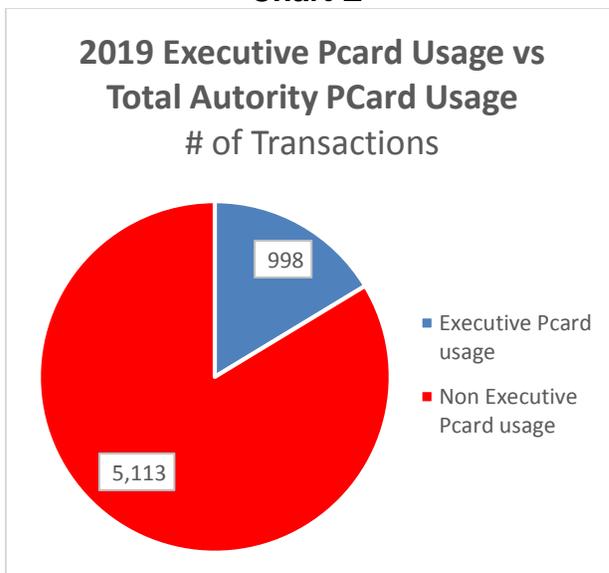
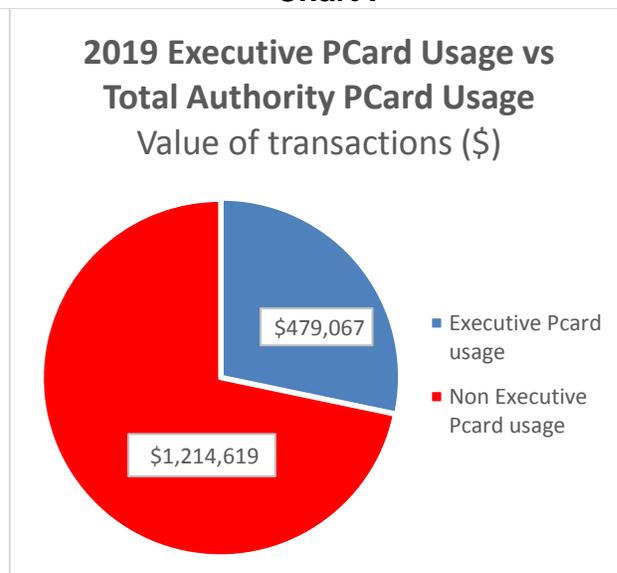
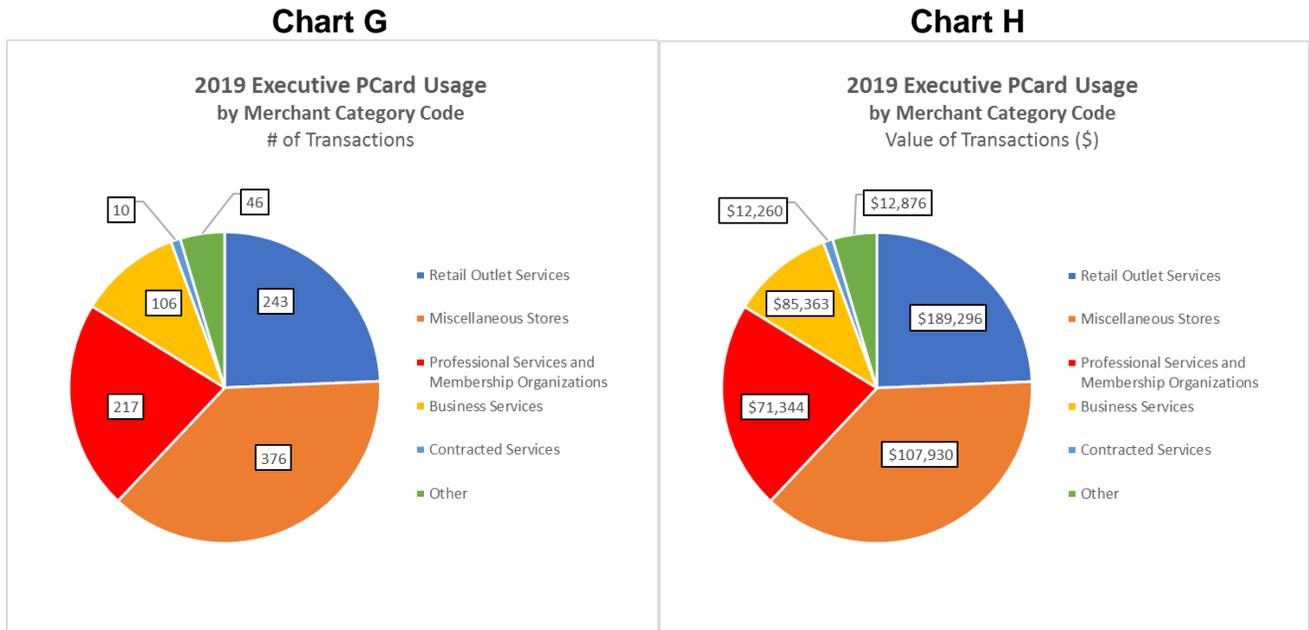


Chart F



The 2019 executive level PCardholder transactions were primarily associated with low value procurement of materials or services within the established credit card merchant categories of Retail Outlet Services (i.e. industrial supplies, commercial equipment, electrical parts/equipment, automotive parts, computers/peripherals/software, etc.), Miscellaneous Stores (i.e. bookstores, continuity/subscription merchandise, electronic sales, eating places/restaurants, etc.), Business Services, Professional Services / Membership Organizations, and Contracted Services. (see *Charts G & H below*).



C. Summary of Results

Based on the completion of our review our Office determined that 2019 Executive Expenses were minimal in value, were associated with legitimate and allowable business expenses, and were found in good order. All identified executive expense transactions submitted and processed during the year 2019 by Authority Commissioners, Officers, Chiefs, and Directors (142 transactions, \$20,706) were subject to review. No expense reimbursement requests were submitted by Authority Commissioners. 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;
- executive expense reimbursement request forms were accurate, approved, and paid correctly;
- in general, supporting documentation (i.e. invoices, receipts, etc.) reviewed reflected legitimate and allowable business transactions. No transactions indicating fraud, waste, or abuse were observed; and,

- expenses submitted via the Employee Expense Reimbursement process were compared to PCard purchases for Director level and above PCardholders; no duplicated expenses were observed.

The following minor issues were noted and are communicated for informational purposes and for continued reinforcement:

- Three transactions totaling \$200 were submitted without itemized receipts as supporting documentation as required by Authority Policy #400 *Expense Reimbursement for Employees and Board Members*. After reviewing these transactions with the DRPA Budget Analyst and the PATCO Senior Accountant, it was noted that itemized receipts were requested, but did not prevent an employee from being reimbursed as long as another form of supporting documentation can be provided. Credit card receipts were provided for all three transactions.
- One overnight travel form was completed and authorized after the travel date. After reviewing this transaction with the DRPA Budget Analyst and the PATCO Senior Accountant, it was noted that having the overnight travel form completed after the travel date did not prevent the employee from being reimbursed. This transaction was authorized by the CEO. The employee was reminded by OIG about the importance of timely completing the overnight travel form in advance of overnight travel.
- OIG observed one transaction reported as a business-related travel expense that was processed using a PCard (for PCardholders at Director level and above); two PCard transactions for travel were noted in total (valued at \$987). In these situations, hotel charges were incurred and paid with a PCard. Current PCard guidance prohibits the use of a PCard to process travel related expenses (PCard classification for “travel” is blocked), unless there is a justified and approved reason otherwise. In review of these PCard transactions related to travel expenses, in each situation a pre-approved Overnight Travel Form (Form 040) was on record and all related expense documentation was on file.

As provided by the Director, Procurement, following discussions with OIG, Finance, and the Deputy CEO, in or around 2018, the PCard Administrator created a limited PCard Travel exception policy. Per this policy (dated February 24, 2020, as revised), PCard guidance generally prohibited the use of a PCard to process travel related expenses (PCard classification for “travel” is blocked). PCard use for travel was permitted if a justified and approved reason existed. Further review of this exception policy by the PCard Administration and the OIG has resulted in a reversal of this policy. It has been determined that, absent a dedicated and centralized travel related PCard, there were potentially inadequate controls or supervision to properly monitor and effectuate travel related exceptions. The PCard Administrator has determined that the general prohibition against use of PCard for travel related expenses shall remain in place. The PCard Administrator has worked with the PCard issuing bank to remove all previously authorized travel related MCC (Merchant Category Code) classifications from users’ Pcards, which had been duly approved per the travel exception policy.

As with all PCard prohibitions, should a valid and justified need for an exception arise, the PCard Administrator will consult with senior management, the OIG, and/or Deputy CEO and review and/or approve such exception requests on a case by case basis.

The reported positive results were communicated to CFO J. White, R. Mosback, Director, Procurement, M. Ciechon, Director, Finance (PATCO), O. Parker, Manager, Budget, J. McGonigle, Sr. Accountant (Finance - PATCO), and W. Andersen, Budget Analyst, in advance of this report's formal release.

OIG wishes to thank J. White, CFO, R. Mosback, Director, Procurement, O. Parker, Manager, Budget, M. Ciechon, Director, Finance (PATCO), as well as all Authority management and personnel who participated in this review, for their assistance and cooperation.

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