



TO: Council Audit Committee  
CC: Steve Powers, City Administrator  
FROM: Tom Crawford, CFO  
DATE: January 24, 2013  
SUBJECT: FY2012 Audit Report

On Thursday, December 20, 2012, Council's Audit Committee met with the City's outside audit firm (Rehmann Robson) and City staff to review the results of the FY 2012 Comprehensive Annual Financial Report (CAFR). The committee did not have a quorum but did review and discuss the report and its findings. A full copy of this report is published on the City's website and has also been distributed to the Council mailboxes. The auditor indicated the financial reports fairly represent the financial position of the city. Two deficiencies were commented on that warranted a management response (sub-ledger reconciliation in customer service and grant reporting for the Federal government), both of which are included in the report along with management's response to correct the issue.

In addition, the auditor reviewed the SAS No. 114 letter on internal controls and pointed out five items that were not considered material but were worth some follow-up. These items are described below along with comments staff is providing the City Administrator.

Auditor Comment-Payroll Process: During our walkthrough of the internal controls over the payroll process, we noted instances where an employee's time input did not bear evidence of direct supervisor review and approval as required by the City's policies and procedures. We did note that an individual other than the employee, in these cases someone from the Payroll Department, approved the employee's time. However, in order to enhance internal controls over this process and enforce its existing policies, we recommend that the City require all employee timesheets to be signed by the employee's direct supervisor prior to payment.

Corrective Action Response: Management understands the auditors' concerns and wants to reiterate our commitment to complying with all policies. Payroll approves timesheets for staff only when all efforts to contact the supervisor have failed. Without payroll's approval, the affected employees would not be paid which is not legal. We will be re-educating supervisors on the importance of timely approval of timesheets. We will also be holding Service Area Administrators responsible for the approval if supervisors working for them are not approving timesheets. Starting February 2013 payroll will provide a report to the Service Area Administrators with a cc to the City Administrator and CFO of supervisors who have failed to approve time for their staff. Service Area Administrators are responsible to insure this is implemented and discipline is applied if there are repeated offenses.

Auditor Comment-Employee Expense Reports. We reviewed various employee expense reports to ensure reimbursements were properly supported and approved. We noted in three instances, that an employee was requesting and receiving mileage reimbursement while also receiving a car allowance, which violates City policy. After further inquiry, it was determined that the City became aware of this situation during the year and has since implemented procedures to address this issue.

Corrective Action Response: In following-up on this issue, staff identified 3 trips (1 conference and two out-of-town court cases) by one employee and one trip (training) by another employee that occurred during FY2012. Similar travel occurred in FY2011 for these employees. It should be noted the first employee only claimed mileage for the trip and paid the other expenses out of pocket even though they appear to be eligible for reimbursement.

In evaluating this issue, staff first looks to legal contracts as a guiding document and secondly to administrative policies for guidance. The above employee with 3 trips had an employment agreement (see attached) with the city at the time of travel that included two separate provisions for an auto allowance and for reimbursement of travel expenditures. A review of the travel & mileage policy (see attached APP #504 & #505) revealed they do not provide clear guidance on how to handle this situation. Some finance staff reasonably believed a mileage reimbursement appeared like the same expense was being reimbursed for twice and raised the issue to the CFO. Meanwhile some supervisors and administrators operated with the belief that the vehicle allowance was for ordinary and customary travel within the city/county but not for less frequent out-of-town trips necessary for travel, training, etc.

A follow-up conversation with the City's auditor determined he was not made aware of the employment contract prior to completing the report and concurs that the phrase "which violates City policy" should not have been included.

For the employee with one instance of travel, their job requires them to regularly be in the field and mobile. The employee attended an out-of-town training event and claimed mileage. Again the policy does not address this situation.

City policy requires Service Area Administrator (or designee) approval for travel reimbursements; however, the policy does not require the City Administrator and City Attorney to obtain approval from the Council Administration Committee Chairperson, which would have provided an opportunity for clarity of expectations to occur. Consequently, there does not appear to be a violation of city policy but there does appear to be a need to modify internal controls and revise/clarify city policies in this area. Staff recommends the following be considered by the City Administrator:

- Clarify and revise the city's travel policy to reflect expectations for reimbursement when an employee receives a vehicle allowance
- Clarify and revise the city's travel policy to require travel reimbursement requests for the city administrator and city attorney to be approved by the Council Administrative Committee Chairperson
- Establish a vehicle allowance policy to clarify expectations for what a vehicle reimbursement is intended to be used for
- Communicate these policy updates with staff and have Service Area Administrators responsible for insuring consistent treatment across the organization

Auditor Comment-Related Party Transactions. The City has a Conflict of Interest policy that states, "An employee, member of the employee's household, or a trust in which the employee is involved shall not have an interest in a company which sells goods or services to the City." During our audit procedures and inquiries, we noted three instances, ranging in dollar amount from approximately \$3,000 to \$44,000, where a family member of a City employee had a contract with the City to provide goods or services. We recommend that the City review its existing policy and takes steps to ensure that it is being followed.

Corrective Action Response: Staff concurs with this recommendation and is in the process of developing revised policies and procedures.

Auditor Comment-Internal Auditor Responsibilities. The City has an internal audit function that is responsible for reviewing the City's processes and making recommendations on how these processes can be improved. We noted through inquiries of various City employees that the Internal Auditor organizationally reports through the Chief Financial Officer. We recommend that the City review this procedure and determine if this function would be more effective if the Internal Auditor reported directly to the Audit Committee.

Corrective Action Response: Historically staff and the audit committee did not feel the city was of sufficient size to justify a full-time internal auditor. This can be revisited and consideration can also be given to investigating if an auditor could be shared with another governmental entity. The question of whom should the city's internal auditor report to should be considered after discussion of the internal audit function. Currently there is no evidence of the need to change the reporting relationship.

Auditor Comment Information Technology. We reviewed with management a list of information technology (IT) controls in place at the City. We noted various opportunities to enhance internal controls over IT, including:

- Passwords are not required to be changed at regular intervals.
- The City does not have a disaster recovery plan.
- A backup and data retention policy does not exist and backups are not tested.
- Employees are not required to lock computer screens when leaving their workstations.

We recommend that these controls be evaluated for potential effectiveness at the City, and implemented where deemed necessary.

Corrective Action Response:

- Passwords are not required to be changed at regular intervals.

Management agrees passwords are not required to regularly change. However, this is a more complicated project than it appears on the surface. In order to implement a broad policy change like this in a way that does not adversely affect the organization and the Information Technology Services Unit's (ITSU) ability to support, it will require time to assess our complex application environment and develop an adequate plan. ITSU will complete a review by May 31, 2013 and present a plan to remedy this control deficiency to the city's IT leadership board.

- The City does not have a disaster recovery plan.

Management agrees this is currently the case. Essentially, as a matter of practicality, and under the assumption of a calculated risk – but a risk no greater than what had always been assumed - instead of focusing on developing a set of City-wide recovery services, the overall strategy has largely been to focus on building a more strategic and resilient IT operating environment. This includes designing and developing robust server, storage, voice, networking and datacenter services and to procure software as a service (SaaS) platformed offerings as the preferred first option for new and replacement systems. **Note: ITSU has always been able to backup various environments, first on tape**

**and now on disk, with data de-duplication and a remote copy available at the secondary datacenter.**

By using this "separation of risks" approach, ITSU was able to implement a significant number of critical new and replacement services in a manner that provided tremendous business value while not creating additional organizational risk, and that in fact reduced the organization's risks because the new services were located at separate geographically disparate providers, all of which have functional backup and recovery programs. Since 2005, a large number of critical systems have been installed including Police and Fire CAD, RMS and Mobile, Court Operations, HR and Payroll, Housing Authority Management and Reporting, Pension, Parking Management and Parks and Recreation Registration and Management that operate off premise and do not need to be included in a City of Ann Arbor local disaster recovery services plan. However, since the City of Ann Arbor, Washtenaw County and the Ann Arbor Transportation Authority (AATA) currently all operate core technology operations from the same two datacenters, it is now essential that the City develops a comprehensive mass system recovery process to address the worst case scenario of a full and catastrophic datacenter loss at the main Ann Arbor City Hall Datacenter.

Because of the nature of our interdependences, the Information Technology Departments of the City of Ann Arbor, Washtenaw County and the AATA are collaborating on developing a common disaster recovery plan. The current state of the plan is that all parties know what is being backed up, where it is stored and that there is the ability to recover backed up data on a small number of servers. All parties are actively working on mass recovery processes for our combined operations and continue to move critical applications, including communication applications, to SaaS providers. By June 30, 2013 we anticipate being able to run a tabletop disaster recovery exercise of off a Disaster Recovery Plan.

- A backup and data retention policy does not exist and backups are not tested.

Management agrees no written policy currently exists. However, the City's backup and data retention practices exist within the service that performs the City's data backup. The City, along with Washtenaw County and the AATA, use a common backup platform from EMC corporation called Avamar. This system backups all of the City's data, across all of our systems nightly, and produces a duplicate of that data at the City's designated recovery facility, the Wheeler Center's Data Center. The retention policy, as implemented, is to retain all data for 42 days, except for our District Court (15D), which has a 15 year retention period for files and video data. By May 31, 2013, ITSU will have this plan documented in writing to remedy this control deficiency.

Management agrees with the finding that backups are not tested but does not agree that the City needs to develop a specific process to test backups. The City

invested in Avamar that uses high performance disk storage and specific software instead. Avamar has many fail-safes built into it to protect the physical data from corruption and unintended loss. Performing testing of backups, as opposed to doing a recovery test, has more to do with testing of the durability and readability of the media used for backup, and that used to be tape. ITSU does verify the status of the backup jobs on a nightly basis and are notified when files are not created – which indicate that a backup failed. They also use the backups fairly regularly for creating test systems, for recovering from system and configuration errors and for retrieving deleted files for users, so the city knows that they work.

- Employees are not required to lock computer screens when leaving their workstations.

Management agrees this is currently the case. Requiring screen locks is fairly easy to rectify and can be technically implemented with a minor change to Microsoft's Group Policy. However, just because something is technically easy to do, does not mean that it has no organizational impact. Management would like to have some time to evaluate the impact of this change on the organization. By May 31, 2013, ITSU will have a plan developed to document and remedy this control deficiency.

If you would like further information on any of these items please let me know.

## **EMPLOYMENT AGREEMENT**

**between**

**THE CITY OF ANN ARBOR**

**and**

**STEPHEN K. POSTEMA**

**THIS AGREEMENT is between the City of Ann Arbor a municipal corporation chartered under the laws of the State of Michigan (the "City"), and Stephen K. Postema ("Employee").**

### **PRELIMINARY STATEMENT**

1. The City is a municipal corporation under the laws of the State of Michigan whose legislative body is the Council and Mayor ("Council"), consisting of eleven members elected pursuant to Chapter 13 of the Charter for the City of Ann Arbor.
2. Under the provisions of Chapter 12 of the Charter of the City of Ann Arbor, the Council appoints a City Attorney who serves at its pleasure as the Attorney and Counsel for the City.
3. Employee has the special expertise, experience and knowledge necessary to perform as the City Attorney and will serve as the head of the legal department.

**COPY**

*Contract*

**ARTICLE I**  
**EMPLOYMENT**

**Section 1.1 Employment.** The City and the Employee agree that the terms and conditions of this Agreement shall govern Employee's employment as City Attorney. The Employee, as the City Attorney, shall be an **employee at will** who serves at the pleasure of the Council as provided in the Section 12.4(b) of the City Charter, notwithstanding any personnel regulations, practices, or representations to the contrary.

**Section 1.2 Term.** The term of employment shall commence on the date specified below and shall then continue until terminated in accordance with the provision of Article IV of this Agreement. The commencement date of the term shall be as specified by the Employee by written notice to the Council, with such notice delivered at least ten (10) days prior to the effective date of commencement; provided, however, that if the term of employment is not commenced by April 7, 2003 and if the City and the Employee have not mutually agreed in writing to extend that date, then the City, by written notice to the Employee, may declare this Agreement null and void and, upon such notice, all rights and obligations of the City and the Employee under this Agreement will be cancelled.

**Section 1.3 Best Efforts.** During the term of his Agreement, Employee shall devote his best efforts to advance the interests of the City and shall perform his duties to the best of his ability, subject to the instruction, direction, judgment and control of the Council.

**Section 1.4 Exclusive Employment.** During the term of this Agreement and any extensions, Employee agrees to be employed exclusively by the City.

**Section 1.5 Personnel Duties.** Except as provided otherwise in this Agreement, Employee shall be subject to the personnel rules of the City of Ann Arbor.

**ARTICLE II**  
**COMPENSATION**

**Section 2.1 Salary.** During the first year of this Agreement, the City shall pay Employee at the rate of \$127,000 annually, to be paid in accordance with the standard City personnel practices and procedures. The Council may adjust Employee's salary as it deems appropriate following an evaluation of Employee by Council in accordance with Article V of this Agreement.

✓ **Section 2.2 Business Expenses.** Employee is authorized to incur such reasonable budgeted travel, cell phone expenses, entertainment and other professional expenses as are necessary in the performance of his duties. The City will reimburse Employee for such expenses in accordance with standard City procedures.

**Section 2.3 Vacation.** Employee shall be entitled to twenty (20) working days per year as paid vacation leave days, the time of such leave to be determined by the mutual agreement of the parties. Such leave shall be accrued bi-weekly in accordance with standard City personnel practices and procedures. In the first year of employment, Employee may use vacation time prior to actual accrual if necessary.

**Section 2.4 Holidays.** In addition to the vacation leave specified in Section 2.3, Employee shall be entitled to all legal holidays provided under the City personnel practices and procedures.

**Section 2.5 Sick Leave.** Employee shall be entitled to sick leave days in accordance with standard City personnel practices and procedures.

**Section 2.6 Personal Leave.** Employee shall be entitled to personal leave days in accordance with standard City personnel practices and procedures.

**Section 2.7 Health Insurance.** The City shall provide Employee and his immediate family with comprehensive health insurance, including hospitalization, medical, dental, and major

medical insurance in accordance with and subject to standard City personnel practices and procedures.

**Section 2.8 Life Insurance.** The City shall provide Employee with term life insurance equal to two times his annual salary, subject to an employee contribution in accordance with standard City personnel practices and procedures.

**Section 2.9 Pension Plan.** Employee may participate in the Employees Retirement System in accordance with and to the extent authorized by the City's pension ordinance, personnel practices, and procedures.

✓ **Section 2.10 Professional Organizations.** The City agrees to budget for and pay for professional dues, bar association dues, reasonable travel and subsistence expenses for Employee's participation in professional organizations which are necessary for him to perform his duties as City Attorney, or which will enhance his ability to perform his duties and benefit the City.

**Section 2.11 Continuing Legal Education.** Employee shall be entitled to reasonable expenses for seminars and professional conferences and the time to participate in these activities.

**Section 2.12 Professional Development.** Notwithstanding Section 1.4 above, Employee is specifically allowed to serve as a mediator, case evaluator, facilitator, and arbitrator in community disputes (which are not adverse to the City of Ann Arbor) as referred from the Washtenaw County Bar Association, the Dispute Resolution Center, the courts, or from other sources. Such service should not exceed an average of 8 hours per month, not including any vacation time or other personal time used for this purpose, and shall be scheduled in a reasonable manner given other duties.

**Section 2.13 Parking.** Employee shall receive a parking place at no charge on the City Hall property or in a comparable location in the event of any construction or renovation to the City facilities.

✓ **Section 2.14 Car Allowance.** Employee shall receive a car allowance calculated at \$330/per month.

**Section 2.15 Computer.** Employee shall receive a laptop computer for use outside the office.

### **ARTICLE III**

#### **DUTIES**

**Section 3.1 General Duties.** Employee shall be engaged as the City Attorney and as such shall be the Attorney and Counsel for the City. He shall be responsible for management of the Office of the City Attorney, shall have all the duties described in the Charter of the City of Ann Arbor and shall perform such other duties as required by him by Council.

### **ARTICLE IV**

#### **TERMINATION**

**Section 4.1 Termination.** This Agreement, and the appointment of the Employee with the City, may be terminated as follows:

- (a) The Council may terminate this Agreement at any time, with or without cause (as defined below), in accordance with the provisions of Section 12.4(b) of Chapter 12 of the Charter for the City of Ann Arbor.
- (b) The Employee may terminate this Agreement at any time, with or without cause (as defined below), by delivery of written notice to the Council at least ninety (90) days prior to the effective date of termination.
- (c) Unless waived in writing by the Council, this Agreement shall automatically terminate if the Employee is precluded by any mental or physical disability from

performing substantially all of his duties hereunder in competent and professional manner for a continuous period of sixty (60) days, effective as of the last day of such 60-day period.

- (d) This Agreement shall automatically terminate upon the death of the Employee, effective as of the date of death.

**Section 4.2 Rights and Duties upon Termination.**

Upon termination of this Agreement, the rights and duties of the City and the Employee shall be as follows:

- (a) Upon termination in all circumstances: (i) the Employee shall be entitled to his regular salary and benefits (payable when and as otherwise due) through the effective date of termination and the Employee shall be required to perform all services as herein required through the effective date of termination; (ii) the Employee shall be paid (when and as due) for all accumulated but unused vacation time, sick leave time and personal leave time in accordance with standard City personnel procedures; and (iii) the Employee shall be paid any contributions due to him from the City Retirement Fund in accordance with standard City procedures.
- (b) Upon termination by the City pursuant to Section 4.1(a) , unless the termination was with "cause" (as defined below), the Employee shall be entitled as severance, in addition to his regular salary (when and as otherwise due), for the period of 180 days following the effective date of the termination of this Agreement. Employee shall also be eligible for all benefits during this 180 day period. Such severance shall not be payable by the City if the termination was with "cause."
- (c) Upon termination by the Employee, if the termination was with "cause" (as defined below), then the Employee shall be entitled as severance to his regular salary (payable when and as otherwise due) payment and benefits for the period of 180 days following the effective date of termination. No severance will be payable to the Employee if he terminates this Agreement without "cause."

- (d) Upon termination due to the disability of the Employee, the Employee shall be entitled as severance to his regular salary and benefits (payable when and as otherwise due) for the period following the effective date of termination through the 180th day following the onset of the Employee's disability; provided, however, that if the Employee receives any benefits under any disability insurance policy during such period, then the amount payable by the City to the Employee shall be reduced by the amount of such benefits.

For purposes of this Section 4.2, the City will have "cause" for termination if the Employee is in breach of material obligation specified in this Agreement and fails to remedy such breach within thirty (30) days after written demand by the City; if the Employee is guilty of any material misrepresentation to the City, either in connection with the signing of this Agreement or the performance by the Employee of his duties under this Agreement; if the Employee is guilty of willful misconduct or willful insubordination in the performance of his duties under this Agreement; if the Employee commits any act of moral turpitude; if the Employee is convicted of a felony or of any misdemeanor which reflects negatively upon the City (including, but without limitation, any offense involving drug abuse or sexual misconduct). The Employee will have "cause" for termination if the City breaches any material obligation specified in this Agreement (including, but not limited to, decreasing the salary of the City Attorney position) and fails to remedy such breach within thirty (30) days after written demand. Any party seeking to terminate this Agreement with "cause" shall, in the notice of termination to the other party, state specifically the "cause" for such termination.

**Section 4.3 Dispute Resolution.** If any dispute arises as to whether the Employee is afflicted with a disability, that dispute will be submitted to and conclusively resolved by a panel of three licensed physicians, the first of whom shall be selected (and compensated) by the Employee, the second of whom shall be selected (and compensated) by the City, and the third of whom shall be selected by the two physicians first selected (and compensated in equal shares by the Employee and the City). If any dispute arises as to whether a party has "cause" for termination of this Agreement, then the City and the Employee may mutually agree to submit that dispute for resolution by a panel of three licensed attorneys, the first of whom shall be selected (and compensated) by the Employee, the second of whom shall be selected (and compensated) by the

City, and the third of whom shall be selected by the two attorneys first selected (and compensated in equal shares) by the employee and the City. In either instance, the determination by the selected panel shall be conclusive and binding upon the City and the Employee and shall not be subject to challenge of appeal.

## ARTICLE V

### EVALUATION

**Section 5.1 General.** The Council will review and evaluate the performance of the Employee. The first evaluation should be completed within one year after the anniversary date of the beginning of employment and thereafter annually not later than the anniversary date of the Employee.

The Council and the Employee shall jointly develop specific criteria as soon as possible that will be used by the Council in the evaluation. The criteria may be revised periodically by the Council and the Employee. The results of the evaluation shall be in writing and shall be discussed with the Employee in closed session.

## ARTICLE VI

### OTHER TERMS AND CONDITIONS

**Section 6.1 Indemnification.** The City shall defend, save harmless and indemnify Employee against any tort or professional liability claim or demand or any other legal action, whether groundless or otherwise, arising out of an alleged act or omission occurring in the performance of Employee's duties as City Attorney. The City may, at its discretion, compromise and settle any claim or suit and pay the amount of any settlement or judgment rendered thereon. Indemnification shall not be provided to the Employee by the City if the claim, demand or other

legal action results from the willful misconduct or willful insubordination of the Employee or if the claim, demand or legal action involves any proceeding where the Employee is the plaintiff or an adverse party to the City. Employee agrees to fully cooperate with the City in its defense of Employee pursuant to this Agreement.

**Section 6.2 Miscellaneous Provisions.** All provisions of the City Charter and Code, general policies, regulations and rules of the City relating to vacation, sick leave, holiday and other fringe benefits as they now exist or hereafter may be amended, also shall apply to Employee as they would to other employees of the City in addition to the benefits enumerated specifically for the benefit of the Employee as herein provided.

**Section 6.3 Transition Issues.** Notwithstanding Section 1.4 above, Employee can assist his former law firm and clients in transitioning his cases after the effective date of employment with the City, but only to the extent that such assistance is done after business hours or on personal time (to the extent possible), is done without compensation from his law firm or clients, requires minimal time, and does not involve matters adverse to the City.

## **ARTICLE VII**

### **CONCLUDING PROVISIONS**

**Section 7.1 Entire Agreement.** This Agreement contains the entire understanding of the parties. There are no oral understandings, terms or conditions, and no party has relied on any representations, express or implied, not contained in this Agreement. This Agreement may be changed on by a written amendment signed by parties. Michigan law shall govern this Agreement.

**Section 7.2 Effective Date.** This Agreement shall be effective upon its signing by both parties.

**Section 7.3 Notices.** Any notice permitted or required under this Agreement shall be in writing and shall be deemed delivered when sent to the addressed at the following address (or such other address as may be hereafter specified in writing.):

If to City: CITY OF ANN ARBOR

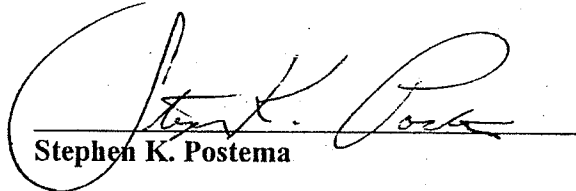
100 North Fifth Avenue  
Ann Arbor, MI 48104

Attention: Mayor

If to Employee: Stephen K. Postema  
1017 Woodbridge  
Ann Arbor, MI 48103

Any notice delivered by mail shall be by certified mail, return receipt requested, and shall be deemed delivered on the third after confirmed deposit with the U. S. Postal Service. Any notice delivered by courier shall be deemed delivered on the next business day following the date of confirmed delivery. Any notice delivered in person shall be deemed delivered on the date of actual delivery to the addressee.

Dated: 4/2/03

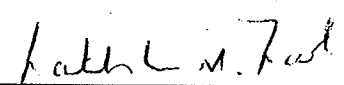
  
Stephen K. Postema

CITY OF ANN ARBOR, a Michigan  
municipal corporation

Dated: 4/3/03

By:   
John Hieftje  
Mayor Pro Tem

Dated: 4/3/03

By:   
Kathleen M. Ford  
City Clerk



## Administrative Policies and Procedures

|                                          |                    |
|------------------------------------------|--------------------|
| Policy Title: Travel Policy              | Policy Number: 504 |
| Effective: January 1, 2011               |                    |
| Supersedes: APR #504, Revised 8/07, 1/11 |                    |
| Approval: <i>Rona Frang</i>              | Page 1 of 5        |

### 1. Purpose

To establish a policy governing travel expense allowances for city employees who travel on official business.

### 2. Policy

2.1 Preauthorization – Is not required by Financial Services, however, approving managers are responsible for insuring their travel expenditures are contained within their respective budget. Each service area administrator can establish a procedure for preauthorization of trips for their service area.

2.2 General Travel Limitations – Subject to budget limitations, all employees are permitted to attend, subject to authorization by the service area administrator or his/her designee, City work-related overnight conferences, seminars, training, certification programs, continuing education, or other similar work-related educational or professional events. The number of employees from a service area allowed to attend the same travel function will be at the service area administrator's discretion. Overnight travel will be used only for opportunities that cannot be achieved locally.

### 2.3 Advance Payments

2.3.1 No advance payments for travel, either by City check or purchasing card will be made by the City unless pre-approved by the service area administrator or his/her designee.

2.3.2 Advances of money for travel expenses do not constitute approval for the expenditure of the entire amount. All expenditures must be justified, documented, and approved and are subject to the restrictions in Section 2.4.

2.3.3 If advances of money for travel expenses for non-employee travelers are placed on a city purchasing card in advance of the departure date then reimbursement to the City must be made upon completion of the transaction. If non-employee costs are incurred during the travel then reimbursement to the City must be made upon completion of the travel expense report as specified in Section 3.3. This includes, but is not limited to, registration, airfare, special events, or meals.

## 2.4 Expense Allowance

2.4.1 City employees may request a travel advance, if approved by their service area administrator or his/her designee.

2.4.1.1 This travel advance may include the cost of meals, tips, and other miscellaneous expenses required for the successful completion of City business while on the trip. The daily allowance will be prorated for partial days and adjusted for meals provided through registration fees or other special arrangements. Persons requesting expense reimbursement are required to provide registration materials, which state whether meals and other expenses are a part of the program registration fee. Meal expenses included in the program registration or other fee will be adjusted based on the per diem schedule in 2.4.2.

2.4.2 Employees may be reimbursed for expenses up to the per diem limits without a receipt. For all expenses over the per diem, a detailed receipt is required along with the approval of the service area administrator. Service area administrator's will use the per diem tables established by the federal government located at [www.gsa.gov](http://www.gsa.gov) as guidelines for travel outside of Michigan.

### STANDARD PER DIEM FOR MICHIGAN

|           |      |
|-----------|------|
| Breakfast | \$10 |
| Lunch     | \$15 |
| Dinner    | \$20 |

2.4.3 If an employee uses a City purchasing card for travel expenses, then a copy of the original detailed receipt must accompany the travel expense report, please keep the original receipt with the credit card statement and submit to Finance per Administrative Policy 512.

2.5 Transportation

2.5.1 Air Travel - The length of the trip will be limited to the length of the conference plus travel time. Travel time may be extended if a discounted airfare is used in which the discount is greater than the additional lodging and per diem allowance for the extended travel period. Air travel will be booked at coach or equivalent passage. Total reimbursable trip time will not exceed seven calendar days without prior approval. An employee will be required to use the employee's own time (i.e., vacation) for days in excess of the approved trip time (approved trip time is inclusive of arrival and departure flight days). When air transportation is used, expenses for car rental or other means of ground transportation to reach a final destination will be subject to prior approval and the restriction stated in 2.5.2.

✓ 2.5.2 Ground Transportation - When ground transportation (non-city vehicle, bus, or rail or combination thereof) is approved for travel, the total allowance for transportation will not exceed the cost of coach class or equivalent air passage, if such service is available. Reimbursement for the use of ground transportation will be limited to the current IRS standard mileage rate multiplied by the actual miles traveled calculated as the lesser of miles from home to destination or work location to destination or the actual cost of the fare. All city employees are required to have and maintain insurance as required by current Michigan law before non-city vehicles are used for city-related travel. Proof of insurance may be required by the service area administrator, or his/her designee, prior to travel approval. When bus or rail ground transportation is used, expenses for vehicle rental to reach a final destination will be subject to approval. The type of vehicle rented generally will be limited to a compact car for one person traveling and a mid-sized car for more than one person. Upgrades to ground transportation may be accepted without prior approval if no additional charges apply.

2.5.3 City Vehicles - Travel in city vehicles is encouraged when practical and available. Employees will be reimbursed for necessary vehicle expenses (towing, repairs, and/or fuel, oil, or similar fluids) for the safe operation of the vehicle while on City business.

2.6 Other Reimbursable Expenses - The following expenses are reimbursable in connection with approved travel:

2.6.1 Lodging - Hotel accommodations will be based on a single room rate. The City will reimburse for a single room rate unless the room is shared with other employees. Upgrades to reserved accommodations will be allowed without prior approval if no additional charges apply. For conferences, negotiated rates may be used in lieu of single room rate if it is less expensive.

2.6.2 Business Activities – Long-distance business calls, Internet access, copying costs, and faxes will be allowed only for documented official use. Meal charges for business associate(s) will be authorized provided the associate's name, company, and nature of the city business conducted are submitted along with the appropriate receipts.

2.6.3 Registration/Materials Fees – Fees charged for registration and/or materials not included in the registration fee at any educational or professional event will be reimbursed subject to approval of service area administrator or his/her designee.

2.6.4 Personal Phone Calls – The City will reimburse for one personal phone call per day for a reasonable amount if documentation is provided.

2.7 Non-reimbursable Expenses - No allowance/reimbursement will be made in excess of actual approved costs subject to the per diem provision of Section 2.4. The following expenses will not be approved:

2.7.1 The City will not reimburse an employee for social events, such as leisure tours, golf outings, concerts, etc. associated with a conference or training.

2.7.2 The City will not reimburse for in-room movies, games or other similar entertainment.

2.7.3 The City will not reimburse the purchase of alcoholic beverages for any reason.

### 3. Procedures

3.1 Forms: All forms are available and may be downloaded from the Financial and Administrative Services intranet site.

3.1.1 The total authorized length of the trip will be determined by the actual dates for the educational or professional events and/or any cost savings to the City for weekend or extended travel. In general, conferences should be limited to no more than five workdays.

3.1.2 If the conference or event is within a 90-mile radius of the worksite, no overnight lodging or meal reimbursement will be provided unless hazardous traveling conditions exist or with the approval from the service area administrator.

### 3.2 Request for Advances

3.2.1 Requests for advance payments for educational or professional events (i.e., registration, lodging, transportation, etc.) may be submitted to the Accounting Services Unit with an approved travel advance request and the appropriate payment voucher requests.

3.2.1.1 Advance payments for registration, lodging, transportation, etc. may be requested for pick-up in the Accounting Services Unit on the appropriate date. Allowance (per diem) advances may be picked-up from the Accounting Services Unit on the normal account payable payment day prior to the employee's departure date.

✓ 3.3 Post travel Reporting: Within ten business days after returning to work, a Travel Expense Report form must be submitted to the service area administrator or his/her designee for approval. After approval, it is then forwarded to the Accounting Services Unit for reimbursement for travel expenditures and/or settlement of a travel advance. The report must include a detailed record of expenses by day. Receipted bills must support all items authorized by this policy or other acceptable documentation attached to the travel expense report.

3.3.1 If no expense report is submitted within sixty (60) days of completion of travel, the City will report any advance received as additional income and withhold taxes computed on the amount of the advance from the employee's check as required by federal tax law.

3.3.2 Amounts due to the City by an employee must be paid to the Customer Service Center and credited to the appropriate account. The Miscellaneous Receipt must be attached to the Travel Expense Report form when submitted to the Accounting Services Unit. Cash, money orders, or personal checks should NOT be submitted with the Travel Expense Report.

3.3.3 Amounts due an employee will be processed with the next available disbursement check run after receipt by the Accounting Services Unit of the required approved Travel Expense Report form and copies of receipted bills or other acceptable documentation.

3.3.4 Financial Services will perform an annual internal audit on a sample of travel reimbursement forms to ensure compliance with this policy.



## Administrative Policies and Procedures

|                                               |                    |
|-----------------------------------------------|--------------------|
| Policy Title: Employee Mileage Reimbursements | Policy Number: 505 |
| Effective: 8/07                               |                    |
| Supersedes: APR #505, dated 9/92              |                    |
| Approval: <i>Randy W. Frasey</i>              | Page 1 of 1        |

### 1. Purpose

To establish a policy concerning mileage reimbursement for employees' approved use of personal transportation for City business.

### 2. Policy

- ✓ 2.1 The City of Ann Arbor shall pay mileage reimbursement for authorized business travel when an employee uses their personal vehicle.
- 2.2 The mileage rate paid by the City shall be adjusted with the written approval of the City Administrator and should not exceed the reimbursement rate established by the Internal Revenue Service (IRS) regulations.
- 2.3 Mileage to and from the workplace to home is excluded from reimbursement.

### 3. Procedure

- 3.1 Complete and submit an approved Mileage Reimbursement Request form to the Accounting Services Unit for payment.
- 3.2 Business travel mileage should be calculated as the lesser of miles from home to destination or from work place to destination.

## Crawford, Tom

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**From:** Mark Kettner [Mark.Kettner@rehmann.com]  
**Sent:** Friday, January 18, 2013 5:01 PM  
**To:** Postema, Stephen  
**Cc:** Crawford, Tom  
**Subject:** City of Ann Arbor - mgmt letter comment

Stephen & Tom –

Following up on our telephone conversations on Wednesday (as referenced below) and today, and this email, I confirm that:

- 
1. The phrase at the end of the second sentence of the management letter comment (under the heading of Employee Expense Reports) that says "...which violates City policy") is incorrect and should not have been included.
  2. We were not given any information about a negotiated executive contract and therefore could not have reviewed it.

As I also stated in our conversations, from a business practices standpoint, our conclusion (with or without the existence of a policy) was it would be illogical and, therefore inappropriate, to make mileage reimbursements to persons having a car allowance. This conclusion is in the absence of knowledge of an agreement that would reasonably identify that payment of both mileage reimbursement and car allowance is acceptable and appropriate.

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**From:** Postema, Stephen [mailto:SPostema@a2gov.org]  
**Sent:** Friday, January 18, 2013 3:21 PM  
**To:** Mark Kettner  
**Cc:** Crawford, Tom  
**Subject:**

Mark:

This is to confirm the two matters Tom and I requested on Wednesday. First, your review of the papers you had indicate that there was no City policy violated. However, you are still going to confirm with the auditors involved. You will let us know of anything else concerning this City policy.

Second, this confirms that you were not given any information about the negotiated executive contract with the City that I have and therefore could not have reviewed it.

Thank you for the information. This helps us respond to the paragraph in question. We will discuss further the deletion of the sentence, but that is easily taken care of.

Tom and I can perhaps speak further with you next week.

Stephen K. Postema  
Ann Arbor City Attorney

**NOTICE TO PERSONS SUBJECT TO UNITED STATES TAXATION:**

**DISCLOSURE UNDER TREASURY CIRCULAR 230:** The United States Federal tax advice, if any, contained in this document and its attachments may not be used or referred to in the promoting, marketing, or recommending of any entity, investment plan, or arrangement, nor is such advice intended or written to be used, and may not be used, by a taxpayer for the purpose of avoiding Federal tax penalties.

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## Audit Committee Member Questions & CFO Responses:

1. When did the auditors inform you of mileage reimbursement "double-dipping" violation (I need specific dates please)?

RESPONSE: Finance staff actually identified the issue and pointed it out to me in a brief discussion sometime during the past few months (I don't recall exactly when). At this time, I indicated to staff that auto allowances didn't necessarily equate to reimbursement for all vehicle usage. I also indicated that I would follow-up on the issue. I was busy preparing for the council offsite and other issues and did not follow-up on this prior to the Audit Committee meeting on 12/21/12, which is also the first time I was aware the auditor had something to say about it. In fact, I was not aware of any of the auditor's comments regarding the five issues until the Audit Committee meeting on 12/21/12. In a follow-up discussion with the Accounting Services Manager, she discovered she received a copy of the SAS letter on 12/14/12 along with a lot of other audit report results but was not aware these items were included in the SAS letter, which for the city is typically a standard letter without these kinds of minor observations.

2. Your response to their claim and when you sent it to them? If you have the email or letter please attach it to the report. I need to see what remediation you provided.

RESPONSE: I plan to respond to them after the Audit Committee and staff complete their discussions about the issue. The reference to a response in the auditors note likely relates to the fact that the Accounting Services Manager indicated that previously the person processing the mileage did not have access to who received vehicle allowances (in payroll). This list was shared once staff identified this issue.

3. When did you inform the council members administration committee of this violation and the resulting policy changes (please attach your email informing them).

RESPONSE: I have not emailed the Administration Committee. Once I started looking into this in early January, I called the Chair of the Administration Committee to advise her of the question raised and that I was looking into it.

4. Who initiated the move to take out car allowance from the new contract?

RESPONSE: Contract discussions for Postema are initiated with the Administration Committee, and I have no knowledge of them.

5. Who worked on the resolution passed on November 8th stating that the attorney was "willingly giving up" his car allowance when it actually came about as a result of an audit push back?

RESPONSE: I am not aware of any connection between Postema's contract and the audit report.

*Committee questions*