



City of Seattle

Office of City Auditor
Susan Cohen, City Auditor

February 1, 2008

Herb Hogue
Chief Financial Officer
Seattle City Light
700 5th Avenue
Seattle, WA 98104

Dear Mr. Hogue:

This letter summarizes the findings of our recent review of travel at Seattle City Light (City Light). We enjoyed excellent cooperation with City Light staff during the course of this review. We also coordinated closely with the State Auditor's Office.

Overall, City Light is doing a good job of managing and controlling travel by its employees. City Light exercises strong internal controls over travel through the use of a single travel agent and by accounting staff review and verification of all travel documents and receipts. While City Light's management controls over travel are generally sound and appropriate, they could be strengthened in the areas of approving travel requests and allowing exceptions to the City's travel policy.

We received formal written comments from City Light on a draft of this report; their response dated January 29, 2008 is included as a separate attachment.

Background:

This review, requested by City Councilmember Nick Licata, examined travel practices at City Light. Our review included the following work:

- evaluating the controls for travel expenditures including management oversight of discretionary travel,
- conducting testing to ensure that City Light follows City travel policies, and
- examining practices at other utilities/organizations to help identify opportunities for City Light to strengthen its controls and make its travel process more efficient.

In 2006, City Light spent over \$1.2 million on travel. City Light officials indicated that historically approximately 68 percent of City Light employees' travel is considered non-discretionary (e.g., repair and/or maintenance work at remote facilities such as the Skagit or Boundary generation facilities or electric utility meetings with the Bonneville Power Administration). Approximately 32 percent is for other business purposes such as training, industry seminars, etc.

Although travel remains a very small portion of the overall City Light budget, it is important that the City be an effective steward of travel funds to ensure the public's trust.

The Office of City Auditor had not reviewed City of Seattle travel practices since 1995. In November 2006, the Seattle Post-Intelligencer published a series of stories that were critical of the City's lack of central oversight over travel. These articles also questioned some of the business justifications for City of Seattle employee travel to destinations such as Australia and New Zealand.

Summary of Findings:

The methodology for our review included interviews with staff who handle travel in City Light and the Department of Executive Administration, interviews with staff at City Light's contracted travel agency, field observations at the City Light travel coordination desk, review of reports produced by City Light and its travel agent, review of documentation for a judgmental sample of City Light trips taken from January 2007 through June 2007, and limited data gathering from City departments and comparable utilities. Based on this review, we identified a number of control strengths and control weaknesses for City Light travel.

Control Strengths

Consolidation under a single travel agent - City Light contracts with a single travel agent, Carlson Wagonlit, for all of its flight and rental car bookings. According to City Light, this structure provides customer service benefits including special pricing on some flights, and a 24/7 traveler support service. In addition, the travel agent produces a wide array of management reports. These reports are currently reviewed by City Light Accounting staff for summary and detail information (e.g., the "top 50 travelers" report). The reports offer the department greater oversight of travel spending compared to other City departments.

Accounting staff review and verification – City Light Accounting staff receive all travel requests. Upon receipt of the travel request, City Light Accounting staff check that the forms are completed and that there is an approval signature. After the trip has been completed, accounting staff match receipts to expense claims, and review expenses and reimbursements. In our field observation and test sample, we noted evidence of City Light Accounting staff review for each set of travel forms that we examined. In our sample set, we noted two examples of traveler expense claims questioned and resolved by City Light Accounting staff. This consistent and routine audit of all City Light travel forms is an excellent internal control. However, this review by City Light Accounting staff may not completely ensure full compliance with the City's travel policy in some instances, as noted in the Control Weaknesses section below.

Travel advances and reimbursements – While we were conducting this review, the State Auditor was reviewing the imprest fund used by City Light for travel advances and reimbursements, so this was not included as part of our scope of work. City Light officials indicated that their collections rate for travel advances and employee reimbursements was 100 percent. We reviewed their controls for non-payment, including notification letters and payroll deductions, and these appear to be effective.

Control Weaknesses

Staff with approval rights – City Light Accounting staff could not provide a complete list or a precise count of the number of people within the department who can approve a request to travel. They indicated that travel approval could be granted by a business unit manager, a project manager, or a division director. The number of City Light staff who can approve travel was estimated to be over 100 distributed throughout the department's business units. In contrast, within the Seattle Police Department, only the Deputy Chief or the Chief may approve travel. Without a complete, accurate list of staff with approval rights, City Light Accounting staff cannot be certain that a travel approval is valid.

Guidance regarding business need for travel - At City Light, determination of business need for travel is left to the individual discretion of any staff member who can approve travel requests. City Light management does not provide specific guidelines regarding determination of business need for travel. This highly decentralized authority can result in inconsistencies in the determination of business need for travel. Within the Seattle Police Department, a committee of four captains review each travel request to determine appropriateness and business need before forwarding the requests to the Deputy Chief for final approval.

Exceptions to the City's travel policy – Individual City Light employees make their own travel arrangements with the contracted travel agent. The travel agent has a copy of the City's travel policy. The travel agent does not prevent City Light employees from making travel arrangements that might contradict the City's travel policy. However, according to the City Light Accounts Payable manager, the travel agent has an informal practice of calling City Light Accounts Payable when travelers request potential travel policy exceptions. The travel agent's staff note in their electronic records these potential policy exceptions. These travel exceptions include choices such as:

- declining a cheaper fare based on carrier,
- booking first or premium class,
- declining a fare with connections that could result in savings greater than \$200.
- declining a cheaper fare based on seat assignment,
- declining a cheaper, non-refundable fare,
- declining a cheaper fare based on flight times, and
- declining a cheaper fare to fly with a previously ticketed passenger.

The travel agent provides City Light with a monthly report of these policy exceptions, and the travel agent could provide City Light with a daily alert of policy exceptions. However, City Light Accounting staff currently do not utilize this information. They indicated that control for adherence to the travel policy resides within the management chain who are approving the travel request and approval forms.

Reports that we acquired from City Light's travel agent indicate that potential fare savings lost as a result of policy exceptions totaled over \$19,000 in 2006, which is about 1.5% of the amount spent on all City Light travel. From January through June 2007, the potential fare savings lost totaled over \$10,000.

We reviewed a sample of 31 trips taken by City Light staff in 2007 for which the travel agent had noted, in the electronic record, a policy exception that resulted in a higher fare. Among the

corresponding 31 travel files at City Light, we found only one note that explained and documented the rationale for making the policy exception.

Based on our sampling, we are concerned that policy exceptions that result in an extra cost for the City may be occurring without management knowledge or consent.

Recommendations:

We offer the following recommendations for strengthening City Light's internal controls for travel:

Tighten management controls for the travel approval process. This might include decreasing the number of staff who can approve travel. It also might include the development of some guiding principles for the discernment of business need in approving travel.

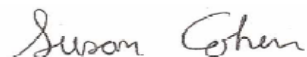
Tighten controls for allowing exceptions to the City's travel policy. This might include training for managers and/or management review of policy exception reports.

Consider investigating and seeking reimbursement from travelers who declined air carriers. Reports from 2006 and 2007 from City Light's travel agent indicate that there were instances in which employees declined a cheaper air fare based on carrier. Potential savings lost ranged from \$20 to \$413 per flight. City Light should ensure that these travel plans were made for legitimate business reasons rather than with the intent of accumulating personal frequent flyer miles at the expense of the City.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Please feel free to call me (206-233-1093) if you have any questions regarding this review.

Sincerely,



Susan Cohen

CC: Seattle City Councilmembers
Ken Nakatsu, Chief of Departmental Operations, Mayor's Office
Jorge Carrasco, Superintendent, Seattle City Light
Connie Griffith, Accounting Director, Seattle City Light
Fred Podesta, Director, Department of Executive Administration
Scott Hayes, Manager, Accounts Payable, Seattle City Light
Rick Thorson, Assistant Audit Manager, State Auditor's Office