

# CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

OFFICE OF HUMAN RESOURCES

City Tuition Reimbursement Program  
Needs to be Managed More Effectively

October 2016

City Controller  
**Alan Butkovitz**



*Promoting honest, efficient & fully accountable government*



# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102-1679  
(215) 686-6680 FAX (215) 686-3832

ALAN BUTKOVITZ  
City Controller

GERALD V. MICCIULLA  
Deputy City Controller

October 31, 2016

Pedro Rodriguez, Director  
Office of Human Resources  
Municipal Services Building, 15<sup>th</sup> Floor  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102

Dear Mr. Rodriguez:

Pursuant to Section 6-400(d) of the Home Rule Charter, the Office of the Controller conducted a performance audit of the City of Philadelphia's Tuition Reimbursement Program. Our objective was to determine if the program is being effectively managed to ensure the appropriate use of city funds. A synopsis of the results of our work, which was performed in accordance with *Government Auditing Standards*, is provided in the executive summary to the report. The conditions giving rise to the findings and recommendations in this report occurred under previous human resource directors.

We discussed our findings and recommendations with you and your staff at an exit conference and included your written response to our comments as part of the report. We believe that our recommendations, if implemented by management, will improve operations of the City's tuition reimbursement program. Our recommendations have been numbered to facilitate tracking and follow-up in subsequent years.

We would like to express our thanks to you, your staff, as well as the agency heads and staff we visited during the audit for the courtesy and cooperation displayed throughout our work.

Very truly yours,

A handwritten signature in purple ink, appearing to read 'Alan Butkovitz'.

ALAN BUTKOVITZ  
City Controller

cc: Honorable James F. Kenney, Mayor  
Honorable Darrell L. Clarke, President  
and Honorable Members of City Council  
Members of the Mayor's Cabinet



# OFFICE OF HUMAN RESOURCES

## CITY TUITION REIMBURSEMENT PROGRAM NEEDS TO BE MANAGED MORE EFFECTIVELY

### EXECUTIVE SUMMARY

---

#### Why The Controller's Office Conducted The Audit

Concerned about the risk of poor oversight with respect to employee tuition reimbursements, pursuant to Section 6-400(d) of the Home Rule Charter, the Office of the Controller (Controller's Office) conducted a performance audit of the City of Philadelphia's (City's) tuition reimbursement program. The objective of this audit was to determine whether the program was being effectively managed to prevent waste and abuse.

#### What The Controller's Office Found

Between July 1, 2011 and March 31, 2016, eleven City agencies reimbursed their employees \$2.3 million in tuition for undergraduate and graduate degree programs. Most, if not all, of the agencies had managed their tuition reimbursement program poorly. These poorly-run programs contributed to tuition overpayments, questionable degrees, and the failure of agencies to collect from reimbursed individuals who willfully left City employment prior to a two-year commitment period. Moreover, in some instances, the amounts received by employees should likely have been reported as income on their annual wage statements. We estimate that taxpayers and residents lost as much as \$1.0 million as a result of the ill-managed programs. Additionally, the City's tuition reimbursement program appeared inequitable. Many City employees lacked the same opportunities to take advantage of obtaining advanced degrees because their agency did not set aside funding to support such expenditures.



Our assessment of the program suggests many of the problems occurred because (1) there is no centralization over the program, (2) reimbursement policies and procedures are vague, (3) agencies often neglect to pre-approve the intended curriculum, (4) there is no city-wide minimum employment period before being able to take advantage of the program, and (5) there are no set limits on the maximum amount of tuition that will be reimbursed.

#### What The Controller's Office Recommends

The Controller's Office has developed a number of recommendations to address the above findings. Some of the more significant include: (1) enforce more stringent requirements for supporting documentation submitted with tuition reimbursement requests; (2) develop a better system of identifying instances requiring the recovery of tuition payments; (3) create a city-wide policy for tuition reimbursements; and (4) establish an independent and central board responsible for pre-approving entrance into the City's tuition reimbursement program.



## CONTENTS

---

### Page

#### INTRODUCTION

Background .....	1
Purpose of the Audit .....	2

#### FINDINGS AND RECOMMENDATIONS

Tuition Reimbursement Program: More Centralization and Clearer Guidelines Could Improve Oversight, Ensure Tax Compliance, and Eliminate Inequities .....	3
Inadequate Oversight Led to Wasted City Funds .....	3
City May Not Be Tax Compliant With Respect to Tuition Reimbursements .....	8
Not All City Employees Afforded Opportunity to be Reimbursed for the Pursuit of Advanced Degrees .....	9
More Centralization and Clearer Guidelines are Necessary to Improve City Management of the Program .....	9
Conclusions .....	13
Recommendations .....	13

#### APPENDIX I: OBJECTIVE, SCOPE, AND METHODOLOGY ..... 16

#### TABLES

Table 1: Commonly Pursued Degrees .....	1
Table 2: Overpayments/Errors Found in Sampled Reimbursements .....	4
Table 3: Tuition Reimbursement Policies in Philadelphia vs. Other Cities .....	10
Table 4: Ten Individuals with Largest Reimbursement Amounts (7/1/2011 – 3/31/2016) .....	12

#### FIGURES

Figure 1: Tuition Costs by Agency – July 2011 to March 2016 .....	2
Figure 2: Differences in Level of Detail Provided for Tuition Reimbursements .....	5
Figure 3: Certificate of Agreement .....	7

#### AGENCY RESPONSE

Pedro Rodriquez, Director, Office of Human Resources .....	19
--	----

#### CONTROLLER'S OFFICE CONTACT AND STAFF

ACKNOWLEDGEMENTS .....	20
------------------------	----

### Background

The City of Philadelphia (City) employs over 27,000 employees across various agencies and functions. In order to maintain a highly skilled and well educated workforce, some of the City's agencies offer tuition reimbursements to their employees so they can pursue degrees in their related careers. The City's Civil Service Regulations stipulate that tuition reimbursement programs should be beneficial to the educational and career advancement of employees and contribute to the improvement of the City agency. Such programs are not considered a right of employment. Some of the more commonly pursued degrees are displayed in Table 1 below.



**Table 1: Commonly Pursued Degrees**

<u>Degree</u>	<u>Agency</u>
Bachelor of Science Criminal Justice	Police
Business Administration	Various
Master of Science Public Safety	Fire
Master of Science Civil Engineering	Water
Master of Science Public Administration	Various
Bachelor of Science Human Resource Management	Various

**Source:** Prepared by the Office of the Controller based on analysis of the City's tuition reimbursement records.

Each agency is responsible for setting forth the minimum requirements for entry into the programs and defining the parameters for consideration and eligibility.<sup>1</sup> Benefits include tuition and sometimes fees, books, and other miscellaneous charges. All of the City's agencies are permitted to provide the benefit to their staff; however, it is at the discretion of the agency's appointed authority to make the benefit available. Historically, the benefit tends to be limited to only select agencies under the Managing Director's Office.

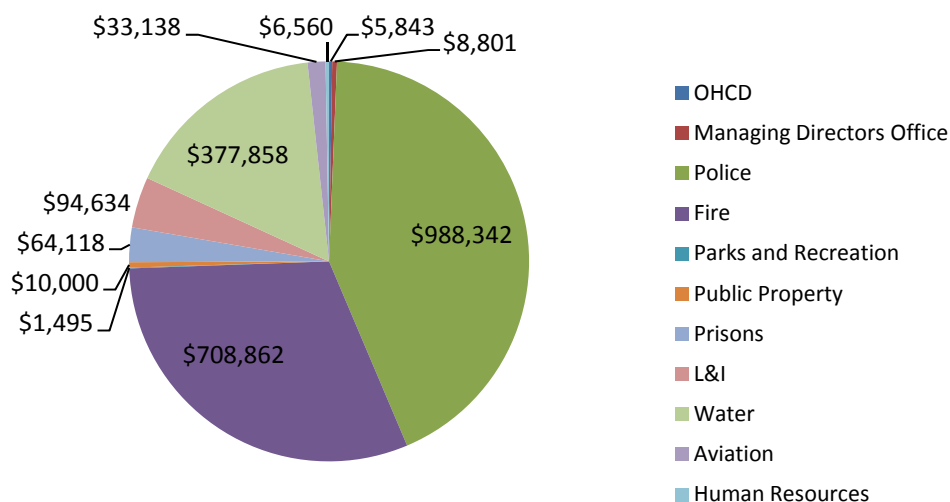
Our analysis revealed that 11 City agencies incurred tuition-related costs totaling \$2.3 million between July 1, 2011 and March 31, 2016. These agencies included: Office of Housing and Community Development (OHCD), Managing Director's Office, Philadelphia Police Department, Philadelphia Fire Department, Department of Parks and Recreation, Public Property, Philadelphia Prison System, Licenses and Inspection (L&I), Water Department, Division of Aviation, and Office of Human Resources.

Figure 1 below shows the expenditures incurred for tuition by each agency.

<sup>1</sup> See Civil Service Regulation 26.011.

Of the \$2.3 million paid out for tuition-related costs, three agencies — Police, Fire, and Water Department — accounted for 91 percent or \$2.1 million of the expenditures. Amongst all the agencies, nearly 2,000 tuition-reimbursed transactions occurred during the time period covered by the audit. These transactions included either reimbursements to employees or, in a small number of instances, payments made directly to universities on behalf of employees.

**Figure 1: Tuition Costs by Agency – July 2011 to March 2016**



**Source:** Prepared by the Office of the Controller based on analysis of the City's tuition reimbursement records.

Because the City's Civil Service Regulations grant each agency the authority to administer tuition reimbursement programs at their own discretion, varying policies exist among the agencies offering the programs. Our testing was designed to verify compliance within each individual policy. However, when no policy existed, we observed each transaction for evidence of proper approvals, existence of supporting documentation, and accuracy of reimbursed amounts.

## Purpose of the Audit

Due to the vague nature of the regulations in place and the confusion among agencies on which policies to follow, the Controller's Office suspected there may be poor oversight within the agencies incurring tuition-reimbursement expenditures, along with a potential for misuse and waste of City funds. Accordingly, our principal objective was to determine whether the City's tuition reimbursement program was being effectively managed to prevent waste and abuse.

### **Tuition Reimbursement Program: More Centralization and Clearer Guidelines Could Improve Oversight, Ensure Tax Compliance, and Eliminate Inequities**

Among the 11 City agencies that offered their employees tuition reimbursement between July 1, 2011 and March 31, 2016, most, if not all, had managed their programs poorly. These poorly-run programs contributed to tuition overpayments, questionable degrees, and the failure of agencies to collect from reimbursed individuals who willfully left City employment prior to a two-year commitment period. Moreover, in some instances, the amounts received by employees should likely have been reported as income on their annual wage statements. Adjusted for overlapping conditions,<sup>2</sup> taxpayers and residents lost as much as \$1.0 million as a result of the ill-managed reimbursement programs. Additionally, the City's tuition reimbursement program appeared inequitable. Many City employees lacked the same opportunities to take advantage of obtaining advanced degrees because their agency did not set aside funding to support such expenditures. Our assessment of the program suggests many of the problems occurred because there is no centralization over the tuition program, reimbursement policies and procedures are vague, agencies often neglect to pre-approve the intended curriculum, there is no minimum employment period before being able to take advantage of the program, and there are no set limits on the maximum amount of tuition that will be reimbursed.

#### **Inadequate Oversight Led to Wasted City Funds**

Review of almost \$200,000 of the \$2.3 million in tuition amounts reimbursed to City employees from July 1, 2011 through March 31, 2016 suggests that poor oversight over these costs contributed to as much as 43 percent of the dollars being misspent. Although designated employees within each agency were responsible for approving entrants, as well as reviewing and authorizing payment of tuition reimbursements, the effectiveness of these processes often failed, as we found that some amounts were overpaid or lacked sufficient documentation to substantiate the payment. In some instances, the benefits to the agency of the degrees earned by their employees appeared questionable. Also, as required, agencies often failed to seek refunds from employees who left City employment shortly after obtaining their degrees.



<sup>2</sup> In arriving at the \$1.0 million, we adjusted transactions to take into account any conditions that overlapped. For example, if the condition we found appeared to be for a questionable degree, and for the same transaction we also found an incorrect reimbursement amount; we projected the questionable degree amount, but did not extrapolate the portion of the transaction attributable to the incorrect reimbursement.

### Agencies Frequently Overpaid Tuition and Often Lacked Adequate Substantiation for Amounts Paid

As shown in Table 2 below, 37 percent of the 108 sampled transactions we examined were either paid incorrectly (\$11,217), or did not contain sufficient supporting documentation (\$15,020) to verify their accuracy. If this error rate continued throughout the population, we estimate that the 11 agencies tested misspent nearly \$307,000 due to overpaid and inadequately documented tuition reimbursement expenditures.

<b>Table 2: Overpayments/Errors Found in Sampled Reimbursements</b>			
<b>Type of Error</b>	<b>No. of Errors</b>	<b>% of Sample</b>	<b>Overpayment Amount</b>
Erroneous payment of miscellaneous Fees*	15	14%	\$3,165
Payment for failed courses*	2	2%	1,237
Payment for discounts/grants/scholarships/refunds	4	4%	2,215
Payment of estimated amounts	9	8%	4,100
Overpayment above maximum limit*	1	1%	500
<b>Subtotal</b>	<b>31</b>	<b>29%</b>	<b>11,217</b>
Insufficient supporting documentation	9	8%	15,020
<b>Total</b>	<b>40</b>	<b>37%</b>	<b>\$26,237</b>

\*Payment is incorrect based on agency specific policy.

Source: Prepared by the Office of the Controller based on analysis of the City's tuition reimbursement records.

While agencies are given the authority to establish their own policies, many times they did not adhere to them. Often the cost of books and other non-tuition miscellaneous fees were reimbursed by agencies with policies explicitly prohibiting the payment of such costs. Other instances of employees being over reimbursed for tuition expenditures included payments for classes that were failed; payment of full tuition bills where students received grants, scholarships, refunds, or discounts; and reimbursements of estimated amounts as opposed to actual billed/paid amounts.

As to insufficient supporting documentation, we considered tuition reimbursements lacking support when it was impossible for us to recalculate the net amounts paid by the employee for a semester. Many agencies did not stipulate the level of detail required to substantiate requests for tuition reimbursement. As such, it was fairly common to observe tuition bills that did not give a comprehensive breakdown of the student's semester billing activity. Without a comprehensive breakdown, it is impossible to identify any grants, scholarships, refunds, or discounts that the employee may have received to offset payment of their tuition. By failing to consider these amounts, employees can potentially be reimbursed more than they actually had to pay in tuition costs.



Figure 2: Differences in Level of Detail Provided for Tuition Reimbursements

3/10/2014 Peirce College Page 5 of 5

**Student Account Printout**

Subsidiary Type Code: CB

Activity through 3/10/2014 12:47:58

Date	Amount	Description	Folio	Status	Receipt #	Receipt Code
8/26/2013	1,200.00	Tuition - COM 202 PR 1		Year		
	4,008.83	Transaction Total		Current Balance:	1,305.00	
9/4/2013	25.36	eCampus Order#6881587		Year		
9/9/2013	183.59	eCampus Order#6901604		Year		
9/23/2013	-706.00	Federal Pell 13-14	91	Year		
	-497.05	Transaction Total		Current Balance:	807.95	
10/14/2013	-495.00	Federal Unsub Loan 13-14	94	Year		
10/14/2013	-1,114.00	Federal Sub Loan 13-14	93	Year		
10/22/2013	801.05	STUDENT CARD REFUND	DC134	Year		
	-807.95	Transaction Total		Current Balance:	0.00	
11/14/2013	-928.00	PHEAA State Grant 13-14	96	Year		
11/14/2013	-706.00	Federal Pell 13-14	91	Year		
11/14/2013	-1,376.00	Federal Unsub Loan 13-14	94	Year		
11/14/2013	-880.00	Federal Unsub Loan 13-14	94	Year		
11/14/2013	-1,114.00	Federal Sub Loan 13-14	93	Year		
11/14/2013	105.00	Technology Fee - HIS 320 PR 2		Year		
11/14/2013	1,200.00	Tuition - HIS 320 PR 2		Year		
11/15/2013	3,699.00	STUDENT CARD REFUND	DC143	Year		
	0.00	Transaction Total		Current Balance:	0.00	
1/23/2014	317.72	eCampus Order#7013252		Year		
1/31/2014	-706.00	Federal Pell 13-14	91	Year		
1/31/2014	-1,376.00	Federal Unsub Loan 13-14	94	Year		
1/31/2014	-1,114.00	Federal Sub Loan 13-14	93	Year		
1/31/2014	105.00	Technology Fee - ACC 222 PW 3		Year		
1/31/2014	1,200.00	Tuition - ACC 222 PW 3		Year		
	-1,573.28	Transaction Total		Current Balance:	-1,573.28	
2/6/2014	1,573.28	STUDENT CARD REFUND	DC166	Year		
	1,573.28	Transaction Total		Current Balance:	0.00	
	0.00	Transaction Total		Acct Audited:	11/15/2013	

Books  
Pell Grant  
Loans  
Miscellaneous  
Tuition

**Payment Receipt**

Dec 21, 2013 07:46 am

Community College of Philadelphia

Unidentifiable payments

Detail Code	Description	Tran Date	Payment
PCHK	Payment - Check	03-SEP-13	\$585.00
PCHK	Payment - Check	14-AUG-13	\$1,220.00
Total:			\$1,805.00

Source: Documentation attached to tuition reimbursement payment vouchers

Additionally, without a comprehensive breakdown of the student's semester billing activity, a reviewer is unable to identify tuition payments versus payments for books, registration fees, and other miscellaneous costs prohibited by agency reimbursement policy. Figure 2 above illustrates differences in the level of detail we observed during the audit.

#### Benefits to the City of Some Degrees Appeared Questionable

Neither City Civil Service Regulations nor the policies of individual agencies have well defined guidelines for entrance into the tuition reimbursement program. In turn, we believe this lack of guidelines can allow for abuse. At best, the City's Civil Service Regulations stipulate that tuition reimbursements should contribute to the improvement of the agency. However, this stipulation is often carried out differently among the agencies. For instance, whereas the Fire Department predetermines what degrees its employees can pursue, the Water Department has a board that approves entrance into its tuition reimbursement program on a case by case basis.

City financial records show several instances of tuition recipients attending courses in which the benefit to the City was not obvious. Because of this obscurity, we questioned approximately \$840,000 in tuition reimbursement payments. A few examples of employees taking coursework for degrees unrelated to their listed job titles included a Police Officer I obtaining a Human Resource Management degree, a Police Officer I obtaining a Business Administration degree, and a Correctional Officer I obtaining a Culture, Science and Technology degree. In addition, there were several instances when employees received tuition reimbursements for pursuing Master's Degrees and PhDs. In one instance, an Administrative Specialist I in the Water Department was reimbursed for a Master's Degree in Public Administration, and upon completion, immediately began pursuing a PhD in Innovation and Organizational Leadership. None of the employee's subsequent promotions required these degrees and reimbursements continue to be ongoing.

#### Agencies Often Failed to Seek Refunds from Individuals Leaving City Employment Prior to Satisfying Two Year Commitment

Although tuition reimbursement programs can assist in attracting prospective employees, an employer offering the benefit to employees without strings attached runs the risk of paying tuition costs for employees who will improve their credentials and subsequently leave for other opportunities. We observed several instances of when agencies reimbursed their employees for Master's Degrees, only to have the employee leave City employment for other opportunities.

Neither Civil Service Regulations nor individual agency policies appear to commit employees to specified employment periods after they have been reimbursed *specifically* for college degrees. Nevertheless, to ensure that employees do not receive tuition benefits from the City and immediately find employment elsewhere, some agencies require their employees to sign a certificate of agreement form (see Figure 3 below).

**Figure 3: Certificate of Agreement**

*Following agreement is to be executed whenever training and/or training leave shall involve an expenditure of city funds of \$500/\$1000 or more for tuition, salary, travel, or other related expenses (Civil Service Reg. 22.091). The agreement is to be signed by the employee.*

**CERTIFICATE OF AGREEMENT**

In consideration of the training leave to be granted to \_\_\_\_\_, an employee of the City of Philadelphia, by the City of Philadelphia, and of payments to him/her for education or training at \_\_\_\_\_ in the field of \_\_\_\_\_ under Civil Service Regulation 22.091, the undersigned hereby agree to reimburse the City in full, all said payments in the event that he/she fails to successfully complete the training for which leave is granted, or in the event that he/she fails to remain in active City employment for a continuous period of two years immediately following the termination of the training leave, provided, however, that should the employee leave City service after one year, but before completing two years of service following completion of the training program, such repayment shall be on a prorated basis from the date of return to full duty following the training leave, except where such failure to do so is due to (a) the death of, or (b) during layoff from City employment of, or (c) during the physical inability of said employee to perform the full active duties of his/her assigned position.

WITNESS our hand and seal this \_\_\_\_\_ day of \_\_\_\_\_ A.D. 20 \_\_\_\_\_.

\_\_\_\_\_  
(Employee)

**Witnesses:**

(1) \_\_\_\_\_

(2) \_\_\_\_\_

Z-15-1597 (Revised) (Rev. 2009)

**Source:** Office of Human Resources

Although the form appears to have been designed to obligate employees to continued employment when they attend courses or seminars requiring training leave, some of the City agencies granting tuition reimbursement for college degrees are using the form as a proxy to achieve the same

intent. Employees who leave the City within one year are required to return 100% of reimbursement payments and those who leave the City between one and two years are required to return a prorated portion of reimbursement payments.

The City is supposed to recover tuition reimbursements through Payroll Credit Advices (PCAs). PCAs are submitted to the City's Finance Office from the agency of the terminated employee. In turn, the Finance Office reduces the terminated employee's final paycheck or pension contributions by amounts the employee owes.

Despite use of the certificate of agreement form and its intended purpose, we found agencies had consistently failed to recover tuition payments when employees left City employment. Since July of 2011, there appear to have been 27 instances of former employees willfully ending employment with the City prior to the required two years of continued employment. Of the 27 terminated employees, only one PCA was submitted to the Finance Office for a return of tuition payments. Additionally, the one PCA did not request the entirety of the tuition owed.

Also of significance, in one instance an employee left the City as shortly as four days after the date of his last tuition reimbursement. In another case, an employee left the City three months after the date of his last tuition reimbursement, having received over \$50,000 (approximately \$30,000 since fiscal year 2012) in reimbursements during his tenure with the City. A PCA was unavailable for both of these employees. In total, the City failed to recover nearly \$100,000 from former employees since July 1, 2011. There is no evidence of controls in place to ensure recovery of these tuition payments, and we believe the City's failure to recover the tuition payments will continue without the implementation of additional controls.

**City May Not Be  
Tax Compliant With  
Respect to Tuition  
Reimbursements**

Similar to other forms of fringe benefits, employers providing tuition reimbursements are generally required to report the benefits as income on the employee's W-2 for tax reporting purposes. Regulations for this requirement differ slightly between the Internal Revenue Service, the Commonwealth of Pennsylvania (State), and the City. While Federal regulations allow for the tax exemption of the first \$5,250 in tuition reimbursement benefits received, State and City regulations grant no such exemptions. Although the taxability of tuition reimbursements differs slightly between the varying levels of government, we were unable to identify any instances of when tuition benefits were reported on an employee's W-2 for federal, state, or local income tax purposes. Though the City's Finance Office is responsible for reporting additional income

amounts on employee W-2s, it is often unaware of who is receiving tuition reimbursements because this information is not communicated by the agencies. Consequences for tax noncompliance include fines, interest, and penalties. Additionally, by failing to report the tuition benefits of its employees at the local level, the City shortchanged itself on the collection of wage tax revenues. We estimate uncollected City wage tax revenues to be between \$80,000 and \$90,000 for the period under audit.

**Not All City Employees Afforded Opportunity to be Reimbursed for the Pursuit of Advanced Degrees**

In our opinion, as currently constructed, the City's tuition reimbursement program appears inequitable as it is only offered to those employed in select agencies — all of them reporting either directly or indirectly to the Managing Director's Office. Employees performing similar functions in other agencies may or may not be given the opportunity to pursue advanced degrees. The agency's decision to allocate funds towards the spending of tuition costs determines whether employees are given the opportunity to pursue advanced degrees. In our opinion, when employees perform similar functions, it is not more important that those employed in one agency obtain degrees over those employed by another. An environment in which only select agencies provide tuition benefits could potentially create a concentration of talent within those that do provide the benefit and discontent within those that do not.

**More Centralization and Clearer Guidelines are Necessary to Improve City Management of the Program**

Several factors have contributed to the City's poorly-managed tuition reimbursement program. In part, the City has no central board or single agency to oversee the authorization and approval of tuition payments. Moreover, City Civil Service Regulations are vague and afford each agency the authority to regulate how they maintain their tuition reimbursement programs. This situation has resulted in varying policies among the agencies. In contrast, most other cities of comparable size maintain clear centralized guidelines for the treatment of tuition reimbursements. In addition, they have adopted many policies that would benefit the City upon implementation such as preapproval requirements, minimum employment requirements prior to entrance to their tuition reimbursement program, and limits on tuition amounts. Table 3 below summarizes the policies of the other comparable cities as compared with Philadelphia.

**City Tuition Program is Not Centralized Within Any One Authority to Ensure Uniformity**

As previously mentioned, the City allows each individual agency authority to develop its own tuition reimbursement policies. Consequently, agencies frequently have policies that differ from one another. We believe these



Table 3: Tuition Reimbursement Policies in Philadelphia vs. Other Cities

City	Central Policy	Pre-Approval Required	Reimbursement Limit	Minimum Grade Required
Philadelphia	No	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Austin	Yes	Yes	\$2,000	C
Baltimore	Yes	Yes	N/A <sup>2</sup>	None
Charlotte	Yes	Yes	NCCC Rate	C (undergrad) B (graduate)
Phoenix	Yes	No	\$6,500	C
Pittsburgh	Yes	Yes	50%	C (undergrad) B (graduate)
San Antonio	Yes	Yes	6 credits/semester 18 credits/fiscal year	C
San Diego	Yes	Yes	N/A <sup>2</sup>	C

N/A<sup>1</sup> = Individual agencies set forth minimum requirements.

N/A<sup>2</sup> = No maximum amount stated in policy.

NCCC Rate = North Carolina Community College system rate of tuition.

**Source:** Prepared by the Office of the Controller based on tuition reimbursement policies obtained.

differences make it difficult for the City's Finance Office to sufficiently verify the accuracy of each reimbursement payment because account clerks responsible for reviewing the payments are often unaware of the intricacies with respect to an individual agency's policy. For example, some agencies allowed for the reimbursement of non-tuition fees, where as others did not. As a result, the Finance Office frequently approved inaccurate tuition payments. Many of the City's peers outline a central tuition reimbursement policy with clear written procedures overseeing all of that city's agencies. In most cases, we found that reimbursement authorization for education is approved by that city's human resource department. The lack of a central policy and agency (such as the City's Office of Human Resources) with appropriate funding to oversee the program also precludes employees in other less-funded City agencies to take advantage of the program.

#### Tuition Reimbursement Policies and Procedures Are Vague and In Need of Clarification

The City has adopted policies that address tuition reimbursement in its Civil Service Regulations (sections 22 and 26) and in Administrative Board Rule #2. However, neither of these sources clearly and definitively lays out details of the reimbursement program. Section 26 of the City's Civil

Service Regulations allows each individual agency the ability to administer tuition reimbursements at their own discretion, while section 22 deals with “Educational and Training Leaves” giving an appointing authority the ability to authorize (a) a leave with pay, in whole or in part; (b) a leave without pay; or (c) the payment of tuition and/or required course fees, in whole or in part. Administrative Board Rule #2 outlines several minimum requirements in order for an agency to offer tuition reimbursements. One minimum requirement is that agencies develop written policies. We observed several instances of agencies providing tuition reimbursements to its employees while simultaneously lacking written policies and procedures. In fact, the Police Department, which incurred the highest amount of spending with respect to tuition reimbursements, had no written policy.

City Agencies Offering Tuition Reimbursement Often Neglect to Pre-approve Intended Curriculum

Administrative Board Rule #2.1115 states that “Prior approval from the next higher level of authorization is required for all personnel when the estimated cost of such travel and other expenses exceeds \$500.” Within our sampled population, 37 percent (40 out of 108) of tuition reimbursements failed to exhibit prior approval of the curriculum as required by Administrative Board Rule #2.1115. Instead, we often observed approval signatures that were dated during or after the completion of coursework. In a few instances, while we noted a signature of approval, no date accompanied the approval. The frequency in which curriculums were not pre-approved exemplifies the lax attitude by City agencies towards approving education benefits. Consequently, it can increase the risk of potential confusion on whether employees can expect reimbursement for their coursework.

No Minimum Employment Period Exists Before Employees are Qualified to Be Reimbursed

Neither the City’s Civil Service Regulations nor Administrative Board Rule #2 stipulate a minimum amount of time that an employee must be employed prior to receiving tuition reimbursement. Although the policies of some City agencies indicate that employees must pass their probationary period first, this can also be viewed as too short of a time period. In comparison, the City of Pittsburgh requires employees to be full time employees with the City for a minimum of one year. This helps reduce the occurrence of employees securing city employment, obtaining degrees through taxpayer funds, and then leaving the City for other opportunities. Additionally, without a minimum employment period, employees do not have the ability to build their pension contribution

balances. Consequentially, it decreases the City's collateral if employees leave before two years of continued employment.

**Limits on Maximum Amount of Tuition Reimbursements Do Not Exist**

Contrary to other cities we contacted, Philadelphia's tuition reimbursement policy does not set limits on a maximum dollar amount, number of courses, or credits that an employee may be reimbursed. As shown in Table 3 above, tuition reimbursement programs in other large cities, such as Phoenix and San Antonio, state in their policies specific limits their employees may receive. Phoenix has a maximum of \$6,500 per year and San Antonio limits their employees' reimbursements to 6 credits per semester and 18 credits per year. Due to differing policies within the City's agencies, some agencies, such as Public Property and the Prisons System, have placed spending limits on employees while others have not. In several instances, we noted employees being reimbursed over \$10,000 in a calendar year, with one employee, who no longer works for the City, receiving over \$20,000 in a single calendar year. Table 4 below illustrates some of the highest reimbursements observed for the period under audit.

<b>Table 4: Ten Individuals with Largest Reimbursement Amounts (7/1/2011 – 3/31/2016)</b>		
<b><u>Employee Title</u></b>	<b><u>Agency</u></b>	<b><u>Reimbursed Amount</u></b>
Water Field Customer Service Manager	Water	\$38,016
Utility Financial Services Manager	Water	\$35,415
Staff Engineer I	Water	\$31,604
Building Plans Examination Engineer I	L&I	\$27,000
Senior Departmental Human Resource Associate	Water	\$26,819
Environmental Engineer IV	Water	\$26,233
Environmental Scientist II	Water	\$24,485
Geographic Information Systems Specialist III	Water	\$23,900
Mass Spectrometrist	Water	\$22,050
Building Plans Examination Engineer I	L&I	\$20,106

**Source:** Prepared by the Office of the Controller based on analysis of tuition reimbursements.

In addition, when students take too large of a course load, it can be detrimental to the performance of their functions as employees with the City. In a lawsuit filed against the Water Department in 2005, an employee attempted to sue the agency for nonpayment of tuition costs. The employee was approved to take coursework and subsequently took a leave of absence while continuing to attend classes. Her actions demonstrate she was unable to handle the coursework in addition to her job duties even though she was approved by the agency to take the course load. In our opinion, such scenarios are preventable if employees are not permitted to take more classes than manageable.

**Conclusions**

If the City's training program is to foster improvement of employee effectiveness, the program, including amounts reimbursed under it, must be managed more effectively. Tuition reimbursement programs are administered at the discretion of agency heads. Because there are no clear and definitive guidelines, agencies have developed their own. This, in turn, has led to widespread variations in the application of training and reimbursement policies, such as the type of qualified training, the types of educational fees reimbursed, and the extent to which employees who received tuition reimbursement are committed to future employment with the City. Moreover, it has resulted in tuition overpayments, unauthorized reimbursements, degrees with questionable benefits, and potentially negative tax consequences. Additionally, because the training program is not centralized, only about 25 percent of City agencies that have the funding capacity allow their employees to pursue college-level degree programs, leaving many City employees unable to participate in the opportunities afforded to others.

The Office of Human Resources should take ownership of the City's training program. Only then will this ensure better oversight, more uniformity in applying the rules and regulations, and a more equitable citywide distribution of available tuition reimbursement funds.

**Recommendations**

To make the City's tuition reimbursement program more effective, we recommend that:

- **Agencies providing tuition reimbursement benefits enforce more stringent requirements for supporting documentation submitted with tuition reimbursement requests [205616.01].** For a reviewer to verify the accuracy of reimbursements, employees requesting reimbursement should be required to submit comprehensive account activity statements that identify all miscellaneous costs, scholarships, grants, discounts, and refunds. In addition, the comprehensive account statement that is submitted should be dated no earlier than one month upon completion of the course to allow time for the educational institution to apply scholarships, grants, discounts, and refunds to an employee's account statement.
- **Agencies providing tuition reimbursement benefits should coordinate with the City's Finance Office to develop an improved system of identifying instances requiring the recovery of tuition payments [205616.02].** A system should be developed in which the Finance Office is not reliant on the submission of a PCA from the individual City agencies. Instead, the Finance Office should be

provided a list of all employees receiving tuition reimbursements so that they are able to identify monies owed to the City.

- **In conjunction with the City Solicitor and the Revenue Department, the Finance Office should research the federal, state, and local tax implications of tuition reimbursements to employees. If deemed taxable, then payment of tuition reimbursements should be done through the City's payroll system to ensure tax reporting and withholding compliance [205616.03].** If payments were made through the City's payroll system, they would be reported automatically onto an employee's W-2. In addition to complying with tax reporting requirements, this would ensure the City immediate receipt of its share of tax revenues from the employee through withholding of City Wage Taxes relating to tuition reimbursement benefits.
- **Human Resources management, in combination with the City's Finance Office, initiate the creation of a city-wide fund for all employees to apply for tuition reimbursements [205616.04].** In addition to creating a more equitable system, a city-wide fund for all employees could preclude the distribution of educated workers throughout various agencies as opposed to a few concentrated agencies.
- **Human Resources management create a city-wide policy for the tuition reimbursement program [205616.05].** The creation of a city-wide tuition policy would create uniformity between the agencies and allow for the City's Finance Office to effectively review reimbursement payments. Additionally, this would provide the City with an opportunity to develop a predetermined catalog of degrees that employees may pursue based on their job functions.
- **Human Resources management commence establishment of an independent and central board responsible for pre-approving entrance into the City's tuition reimbursement program [205616.06].** By having an independent central board responsible for approving entrance, the City would have more stringent controls over approvals into the programs. In addition, an independent board may show more objectivity in the authorization of entrants into the program.
- **As part of a city-wide policy for tuition reimbursement, Human Resources management establish a minimum employment requirement of one year or more prior to entrance into the tuition reimbursement program [205616.07].** Creating a minimum employment requirement would improve the City's



ability to assess whether employees should be authorized to take courses and would also increase the City's collateral for when employees are required to repay reimbursed tuition amounts.

- **As part of a city-wide policy for tuition reimbursement, Human Resources management establish limits to the amount of credits taken per semester [205616.08].** Employees should not be given the opportunity to enroll in more than a predetermined amount of credits per semester. Preventing employees from taking too many credits would in turn decrease the potential for decline in the performance of their normal job duties.

## **APPENDIX I: OBJECTIVE, SCOPE, AND METHODOLOGY**

---

This appendix provides information on the scope of work and methodology we used to ascertain whether the City's tuition reimbursement program is being effectively managed in order to ensure appropriate use of City funds.

To accomplish our objective we performed the following:

- Obtained a listing of all the City's non-payroll expenditures from Fiscal Year 2012 through the third quarter of Fiscal Year 2016 (July 1, 2011 – March 31, 2016). Using this data, we extracted all expenditures coded as training expenditures. We then identified all tuition expenditures within the resulting data. Because tuition expenditures were not coded separately from other training expenditures, we analyzed expenditure descriptions on payment vouchers to identify all tuition expenditures. Using a conservative approach, we reviewed the expenditure descriptions and extracted all expenditures with certain keywords such as "tuition", "spring semester", and "mba". The resulting data (1,974 tuition expenditures) was sorted by fiscal year and considered our population.
- Selected a sample size of 108 expenditures (approximately five percent) to review in more detail. We selected our samples using a stratified random sampling method. The tuition expenditures of each fiscal year were partitioned by agency and samples were then randomly selected based on the size of the agency. We then retrieved all supporting documents available from City record files.
- Requested written tuition reimbursement policies for each agency where we identified tuition payments. The following three agencies did not maintain written policies: Managing Director's Office, Police, and Parks and Recreation. We also requested and reviewed, when made available, the policies of the following peer cities: Austin, TX; Baltimore, MD; Charlotte, NC; Chicago, IL; Houston, TX; Phoenix, AZ; Pittsburgh, PA; San Antonio, TX; San Diego, CA; and Washington DC.
- Verified the accuracy of sampled reimbursement transactions by obtaining an understanding of each agency's tuition reimbursement policy and recalculated the reimbursements using available invoices or receipts. We identified and excluded from our calculations unallowable costs, such as technology fees, books, and other miscellaneous fees, depending on the agency's policy. We also identified and accounted for any grants, scholarships, discounts, and refunds. Following our recalculations, we reviewed all transactions for inappropriate payments due to failed courses and payments made above an agency's limit. Our recalculations along with the payments we deemed inappropriate were then compared with the reimbursements actually paid to determine overpayments within our sample. The resulting overpayments were extrapolated to our population.

- Reviewed the sufficiency of supporting documentation submitted by the employee requesting reimbursement. We determined sufficiency based on whether it was possible to accurately recalculate the correct reimbursement amounts. This required the availability of detailed student billing statements, which specified account adjustments made for non-tuition fees, scholarships, grants, discounts, and student refunds. All sampled items with insufficient supporting documentation were identified and considered overpayments of reimbursements. Ending results were projected to our population.
- Ascertained the relevancy of degrees and their benefit to the City agency by comparing the employee's agency, job specifications, and the degree pursued. Job specifications were reviewed using the City's Civil Service job class specifications and degree information was obtained through various university websites. We observed the aforementioned criteria to determine if the degrees pursued improved the efficiency and broadened the knowledge of the employee in their respective jobs, as specified in Civil Service Regulation 26.01. Upon identifying the reimbursements whose benefit was not obvious, we projected the amounts to the population.
- Determined the number of instances in which our sampled data did not show prior approval by comparing dates of approval signatures to the start date of the class. We considered all sampled reimbursements with approval signatures dated after the start of classes, or without dates, as not having proper prior approvals.
- Identified tuition costs that should have been recovered from former employees by first determining the employment status of the employee. To do so, we utilized the City's payroll system to verify whether the individual was a current employee or had been terminated. If terminated, the employee's termination date was compared to their estimated final date of classes to determine whether the employee remained employed with the City for a minimum of two years. Using the City's Oracle System, we then identified the cause of termination to determine whether the employee's termination was willful or not. In turn, we calculated tuition reimbursements made to all willfully terminated employees within our audit period. Reimbursements made for employees willfully ending City employment within one year of their classes were considered fully recoverable by the City and reimbursements made for those ending employment between one and two years were prorated. No projections were necessary as the entire population was used for our calculations.
- Determined the potential taxability of tuition reimbursements by researching applicable federal, state and city tax regulations. We also computed the potential loss of tax revenue to the City by multiplying

each year's tuition reimbursement by the effective wage tax rate. No projections were necessary as the entire population was used for our calculations.

- Analyzed agency policies and procedures to identify any weaknesses in its internal controls when matters came to our attention that a agency's tuition program was managed insufficiently.

We performed our work from June 2016 through September 2016 in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States. 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.



CITY OF PHILADELPHIA

OFFICE OF HUMAN RESOURCES  
1530 Municipal Services Building  
1401 J. F. Kennedy Boulevard  
Philadelphia, PA 19102-1675

PEDRO RODRIGUEZ  
Director of Human Resources

(215) 686 - 2331  
FAX (215) 686 - 2347

October 28, 2016

Alan Butkovitz  
City Controller  
Municipal Services Building, 12<sup>th</sup> Floor  
1401 John F. Kennedy Blvd.  
Philadelphia, PA 19102

Dear Mr. Butkovitz,

Thank you the opportunity to respond to these findings. The Office of Human Resources (OHR) is very willing to convene a working group of representatives from City departments to develop a city-wide policy regarding employee tuition reimbursement. Your recommendations are thoughtful and well researched, and they will be carefully considered by the group. I will also submit recommendations to the Civil Service Commission for additions and changes to the Regulations that would support improved application of this benefit throughout the government. I look forward to working with you as we move forward with this effort.

Sincerely,

A handwritten signature in cursive script, reading "Pedro A. Rodriguez".  
Pedro A. Rodriguez



## ***CONTROLLER'S OFFICE CONTACT AND STAFF ACKNOWLEDGEMENTS***

---

<b>City Controller's Office Contact</b>	Bill Rubin, First Deputy City Controller, (215) 686-6696, bill.rubin@phila.gov
<b>Staff Acknowledgements</b>	In addition to the individual named above Gerald Micciulla, Post Audit Deputy Controller, Christy Brady (Audit Director), Daniel Lee (Senior Auditor), and Nitesh Patel (Staff Auditor) made key contributions to this report.
<b>City Controller's Office Mission Statement</b>	The City Controller's Office is the independent watchdog agency of the City of Philadelphia that strives to promote honest, efficient, effective, and fully accountable city government. We address this mission by: providing timely and objective analysis on the availability of funds for all city contracts; preventing inappropriate spending of public funds; and providing objective, timely, and relevant information to city officials, the public, and other interested parties about financial operations of the city, and on ways to improve city operations and the use of public resources.
<b>Obtaining Copies of City Controller's Office Reports</b>	The fastest and easiest way to obtain copies of the City Controller's Office reports is through the City Controller's Web site at (www.philadelphiacontroller.org).
<b>To Report Fraud, Waste, and Mismanagement of Your City Tax Dollars</b>	<p>Contact information</p> <p>Web site: <a href="http://www.philadelphiacontroller.org/report-fraud">http://www.philadelphiacontroller.org/report-fraud</a></p> <p>Telephone: (215) 686-3804 (automated line)</p> <p>Download the FREE Fraud Reporting app for iOS and Android devices.</p>