

State Board Member Per Diem Compensation and Expense Reimbursements

CONCLUSION: The Office of the Auditor General has completed a review of per diem compensation and expense reimbursement payments to members of state boards, commissions, councils, and advisory committees (collectively referred to as boards) pursuant to Laws 2016, Ch. 328, §1, for fiscal year 2016. We found that most boards auditors reviewed did not have written policies and procedures that defined the specific board-related activities eligible for compensation, the amount of time required to be spent on board-related activities that will be compensated, and the process for paying compensation to board members to ensure that board payments are an appropriate use of public monies. Further, we found that not all board members were paid per diem compensation and/or reimbursed for expenses in accordance with state law and policy. Finally, we found that some per diem compensation and expense reimbursements were processed outside of the State's payroll system, placing the State at risk of noncompliance with applicable tax withholding requirements.

Policies and procedures would help ensure boards pay per diem compensation appropriately

Boards compensate members differently for board-related activities—Most boards' statutes do not specifically define the board activities that members will be compensated for or the amount of time that constitutes a day engaged in the service of the board. In addition, most boards lacked written policies and procedures defining the activities and the amount of time members must be engaged in those activities to receive compensation, and the process for paying compensation to board members. Of the 59 boards we reviewed, 41 were statutorily allowed to pay members per diem compensation at a specific rate for each day engaged in board business. These 41 boards' members were paid daily compensation for the following activities:

- 20 boards paid members for attendance at meetings only;
- 19 boards paid members for attendance at meetings, one or two days of preparation for the meetings, attendance at annual conferences, trainings, and/or meetings of other organizations; and
- 2 boards paid members for attendance at meetings, various activities identified above, and for making phone calls and responding to emails.

Some compensation could appear to be an inappropriate use of public monies—Without specific statutes and/or policies and procedures that define board-related activities and the amount of time required to be spent performing these activities to be eligible for per diem compensation, payments to board members could appear to be an inappropriate use of public monies. For example, paying a board member the daily per diem compensation amount for reviewing and responding to emails regardless of the time spent on this task could appear to be an inappropriate use of public monies.

Boards should develop and implement written policies and procedures for paying per diem compensation—Boards should develop and implement policies and procedures regarding the payment of per diem compensation to help ensure they appropriately compensate their members and help ensure continuity for new board staff who oversee payments.

Recommendation

Boards should develop and implement written policies and procedures that comply with each board's statutory requirements, and define the specific board-related activities eligible for compensation, the amount of time spent on board-related activities that will be compensated, and the process for paying compensation to board members.

All board member per diem compensation and expense reimbursement payments should comply with state statutes and policy

Some board members not paid in accordance with statute or policy—Some boards we reviewed did not follow internal control policies and procedures outlined in the *State of Arizona Accounting Manual* (SAAM) or state law. We found that 13 of the 59 boards reviewed paid compensation and/or reimbursed expenses that were higher than allowed, or made payments that did not have proper supporting documentation, resulting in a total of \$4,844 in overpayments and unsupported payments out of the \$76,812 in fiscal year 2016 payments reviewed. These overpayments could be considered a gift of public monies in violation of the Arizona Constitution.

Boards should adhere to state internal control policies and procedures—To ensure members are paid in accordance with statute and policy, boards should adhere to the State's internal control policies and procedures as outlined in SAAM. These policies and procedures require boards to develop and maintain an appropriate system of internal controls to support its processes and operations, safeguard assets, and ensure compliance with laws and regulations.

Arizona Department of Administration (ADOA) should clarify policy for mileage reimbursements to board members—State policy, as outlined in SAAM, describes procedures to follow when reimbursing mileage to travelers who use their own vehicle when traveling on state business. However, these policies and procedures do not specify that they apply to state board members, and as a result, boards reimbursed members inconsistently. Therefore, the ADOA should clarify the State's mileage reimbursement policy for board members.

Recommendations

Boards should determine, along with their legal counsel, whether to pursue reimbursement from their board members for the identified overpayments. They should also adhere to the State's internal control policies and procedures outlined in SAAM. Further, the ADOA should clarify the State's policies for mileage reimbursements to board members.

Board member per diem compensation and expense reimbursement payments should be processed in State's payroll system

Certain board member payments subject to tax withholding requirements—The Internal Revenue Service classifies board members as government employees for income tax withholding purposes. Thus, the State is responsible for withholding federal and state income, social security, and Medicare taxes for applicable board payments.

State payroll system designed to ensure compliance with tax requirements, but boards not adequately directed to use it—Payments made outside of the payroll system may result in noncompliance with tax withholding requirements if the alternate payment processes are not similarly designed for tax compliance. The State lacks a policy in SAAM to direct boards to process board member payments for per diem compensation and nontravel-related expense reimbursements in the State's payroll system.

Some boards processed payments outside the payroll system, placing the State at risk for noncompliance with tax requirements—We found 14 of the 59 boards processed fiscal year 2016 payments to board members for per diem compensation and/or travel-related expense reimbursements outside of the State's payroll system, and therefore, the required taxes may not have been appropriately withheld.

State policies should direct boards to process payments through state payroll system—The ADOA should develop policies and procedures requiring boards to process per diem compensation payments and nontravel-related expense reimbursements using the State's payroll system and incorporate them into SAAM. The ADOA should then communicate these policy requirements to all state boards.

Recommendations

The ADOA should develop policies and procedures requiring boards to process compensation and nontravel-related expense reimbursements using the State's payroll system and incorporate them into SAAM, and communicate these policy requirements to all state boards.