

# CITY OF ALLENTOWN

## Fitness Reimbursement Benefit Review

Date of Report: May 02, 2024

Under the Capital Blue Cross (CBC) Agreement,

“CBC has agreed to pay under a reimbursement arrangement the fitness membership fees that will be submitted every 6 months by the employee. The annual charge for this process will be \$5,000 and will be billed on or around the first bill of each contract year.”

Per the CBC “Fitness Reimbursement Form”, City of Allentown (COA) CBC subscribers, are entitled to Fitness Membership reimbursement to a maximum per 12-month period of \$300 per member,

“For the six-month, Capital BlueCross will reimburse the member one-hundred fifty dollars (\$150) or fifty percent (50%), whichever is less, of the annual membership fee for that six-month period; the remaining balance is the responsibility of the member. Reimbursement is subject to eligibility and limitations.”

Additionally, non-bargaining employees are entitled to an additional \$100 per 6-month period to a maximum per 12-month period of \$200 per member.

In 2023, HUMAN RESOURCE (HR) was responsible for managing the CBC and COA Fitness Reimbursement program. Effective 01/18/2024, the responsibility was transferred to RISK.

### **OBJECTIVE**

The objective of the review was:

- To determine whether the Fitness Reimbursement Benefit provided in 2023 complied with the various City of Allentown agreements.
- To determine whether the employees who were awarded the Fitness Reimbursement Benefit in 2023 were eligible for the benefit.
- To identify any potential improvements to the programs.

### **PROCEDURES**

This audit was conducted in accordance with generally accepted governmental auditing standards and utilized an approach that included staff interviews, reviews of documents and reports, and examinations of individual financial transactions.

Our process began by:

- Obtaining an employee listing of the CBC Fitness Reimbursements paid in 2023 and comparing to EDEN and other supporting documentation.

## FINDINGS, RECOMMENDATIONS AND RESPONSES

### INTERNAL CONTROL WEAKNESSES

#### 1. No Formal Policy or Procedure for Fitness Reimbursement

After reviewing the Collective Bargaining Agreements, Personnel Policy Manual (PPM), AIMS, MOUs, and Ordinances for anything to support the CBC and/or the COA Fitness Reimbursement, the CBC Fitness Reimbursement form is the only document available that provides some detail of the benefit being provided to COA employees.

Per the CBC “Fitness Reimbursement Form”, “member”, are entitled to Fitness Membership reimbursement to a maximum of \$150 per 6-month period (12-month period of \$300 per member).

Per the CBC Fitness Reimbursement form,

“Complete one for each member requesting reimbursement under the Fitness Reimbursement Benefit.”

The form does not define “member”. In 06/2023, EHD Insurance acting as an agent for the City of Allentown submitted an inquiry to CBC to see if retirees were eligible for the benefit.

Per CBC,

“Research finds that retirees are eligible for the reimbursement. There is no documentation on file excluding retirees. All members are reimbursed for a 6-month membership at 50% of the cost, not to exceed \$150.

It is unclear whether a spouse, or children are each considered members.

Additionally, per the CBC Agreement,

“CBC has agreed to pay under a reimbursement arrangement the fitness membership fees that will be submitted every 6 months by the employee. The annual charge for this process will be \$5,000 and will be billed on or around the first bill of each contract year.”

For 2023, 29 (twenty-nine) CBC Fitness Reimbursements forms were processed by CBC. The City paid \$5,000 (\$172.41 per form) for CBC to pay the employee/retiree for the benefit.

As identified in Issues #2 and #3, CBC is not responsible for reporting taxes and in 8 (eight) instances has overpaid the benefit.

## **Recommendation**

A policy describing the benefit should be formalized and made available to COA employees. This should include a definition of who is a “member”.

Administration should consider bringing the function in-house which will allow for the reporting of the taxable fitness reimbursement.

## **Administration’s Response**

A fitness reimbursement policy that addresses the concerns contained in this report has been completed. The policy is currently in draft format and awaiting administration guidance on maximums per year for eligible persons.

Risk Management will cease paying Capital Blue an annual fee for administering reimbursement effective with the approval and circulation of the approved Fitness Reimbursement Policy. Additionally, a code has been completed in the ERP to ensure tax compliance titled “gym” and is active.

## **2. CBC Fitness Reimbursement Not Reported to IRS**

Per the CBC Agreement,

“Capital does not provide legal or tax advice, and expressly disclaims all responsibility for determining, on behalf of Group or any other entity or individual, the legal and tax implications of reimbursing its employees’ gym membership at Groups’ instruction. Capital does not make any representation as to the Group’s compliance with applicable law, or the legal or tax consequences to Group or any member of such reimbursement. Group hereby acknowledges that such reimbursement may be taxable income and represents and warrants that it is in compliance with all applicable law including the Group’s tax withholding and reporting obligations. Group is solely responsible for any member communication relating to applicable legal and tax implications of the of the reimbursement.”

Per IRS Publication 15-B (2024), Employer's Tax Guide to Fringe Benefits:

"A fringe benefit is a form of pay for the performance of services."

### "2. Fringe Benefit Exclusion Rules -

This section discusses the exclusion rules that apply to fringe benefits. These rules exclude all or part of the value of certain benefits from the recipient's pay."

"Athletic facilities

Exempt if substantially all use during the calendar year is by employees, their spouses, and their dependent children, **and** the facility is operated by the employer on premises owned or leased by the employer."

For both the CBC and COA fitness reimbursement, the fitness center/gym is NOT owned or operated by COA, therefore the fitness membership reimbursement is a taxable fringe benefit to the employee.

For 2023:

- None of the 29 (twenty-nine) CBC Fitness Reimbursements were reported as income to the subscriber.
- All 4 (four) of the COA Fitness Reimbursements were reported as income to the subscriber. This was done through COA Payroll.

### **Recommendation**

Administration should develop a process to ensure all Fitness Reimbursements (CBC and COA) are reported as income to the employees as required by the IRS.

### **Administration's Response**

Risk Management will be processing all fitness reimbursements through the City ERP system using a code that reports the reimbursement in accordance with IRS guidelines and will ensure that proper taxes are paid.

## **3. CBC Reimbursement Exceeded**

Per the CBC "Fitness Reimbursement Form", City of Allentown CBC subscribers, are entitled to Fitness Membership reimbursement to a maximum of \$150 per 6-month period (12-month period of \$300 per member).

We reviewed 29 CBC approved Fitness Reimbursements for 2023 and identified 8 (28%) that exceeded the reimbursement amount outlined in the CBC "Fitness Reimbursement Form"; All the 8 requests were paid by CBC.

### **Recommendation**

CBC should be contacted and if possible, reimbursement should be requested from CBC for the overage paid.

### **Administration's Response**

Risk Management will be contacting the CBC Account Manager to request an explanation of potential overpayments. If there was an error in payment processing, Risk will request any necessary refund/invoice adjustment from the provider.

#### **4. Weaknesses in Paperwork Submitted to CBC**

In 2023, CBC paid 29 (twenty-nine) Fitness Reimbursements; 21 (twenty-one) were for active employees and 8 (eight) were for retired employees.

We requested the corresponding paperwork from HR and noted 17 (58.6%) of the CBC Fitness Reimbursement paperwork could not be located by HR. CBC was contacted and provided all but one of the outstanding forms.

Of the 28 (twenty-eight) CBC Fitness Reimbursement forms located:

- 5 (five) was not properly approved by HR,
- 25 (twenty-five) had no evidence of payment to the fitness facility or Peloton subscription, and,
- Although the CBC Fitness Reimbursement form specifically states, “This benefit is limited to reimbursement of annual membership fees. Reimbursement of fees other than annual membership fees, including but not limited to month-to-month membership fees, registration fees, and enrollment fees are **not** eligible for reimbursement.” We identified:
  - 1 (one) was for a Peloton subscription.

Due to the lack of documentation, it could not be determined if HR approved the CBC Fitness Reimbursements prior to payment by CBC.

#### **Recommendation**

Administration should request a revision of the CBC Fitness Reimbursements form to address the issues identified.

Compliance to the CBC Fitness Reimbursements form requirements should be reviewed on a periodic basis.

#### **Administration’s Response**

There will be better internal controls once a formal policy is approved/distributed. The policy will clarify and strengthen the weaknesses identified in this finding.

#### **5. COA Fitness Reimbursement Deficiencies**

Non-bargaining employees are entitled to an additional \$100 per 6-month period to a maximum per 12-month period of \$200 per member for fitness reimbursement. There is no documented evidence of this policy except for the payments that have been made.

For 2023, 7 (seven) Non-bargaining employee CBC Fitness Reimbursements were submitted and paid by CBC.

Of the 7 (seven) Non-bargaining Fitness Reimbursements identified:

- 3 (three) received the additional COA Fitness Reimbursement, there was no evidence in EDEN that the remaining 4 (four) received the COA Fitness Reimbursement,
- 1 (one) of the 3 (three) Fitness Reimbursements exceeded the yearly maximum reimbursement amount offered by the City.

Although CBC had no record of the employee's submission, we identified 1 (one) Non-bargaining employee who received the COA Fitness Reimbursement. Attempts to identify who or how the reimbursement was entered into EDEN was to no avail.

### **Recommendation**

- Consideration should be given to developing a formalized policy, process, and a form specifically for the COA Fitness Reimbursement.
- Reimbursement should not be made without the proper supporting documentation.
- Periodically, the reimbursement made by CBC for Non-bargaining employees should be compared to the COA Fitness Reimbursement to ensure compliance.

### **Administration's Response**

There will be better internal controls, including a REVISED Fitness Reimbursement Form once a formal policy is approved/distributed. The policy will clarify and strengthen the weaknesses identified in this finding. Future reimbursements will include supporting documentation. Additionally, the movement to internal processing will reduce and/or eliminate the potential for overpayments and payments without proper documentation.