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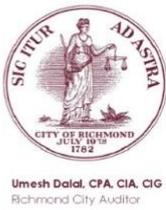
## Citywide Employee Travel Expenditures Audit Report#: 2018-01



Issue Date: July 25, 2017

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# Richmond City Council

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Richmond, Virginia

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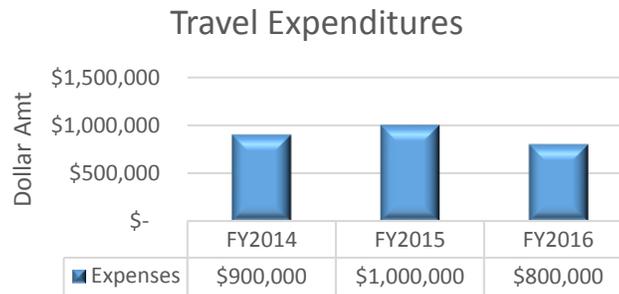
### Executive Summary

July 11, 2017

Ms. Selena Cuffee-Glenn, Chief Administrative Officer

**Subject: Citywide Employee Travel Expenditures**

The City Auditor's Office has completed an audit of Citywide Employee Travel Expenditures in accordance with the generally accepted government auditing standards. The following graph compares the travel expenditures during the past three fiscal years:



This audit included a review of employee travel expenditures during July 1, 2015 through December 31, 2016. The following are salient findings:

- According to the City Controller, the former Finance Department employee who processed travel requests, worked with limited management oversight. Management oversight of this function is critical. Specifically, during the audit period, adequate separation of duties were not in place for processing travel expenditures and handling of related cash transactions. Although the audit did not identify any fraudulent transactions, weak controls could have resulted in a financial loss.
- The auditors found that the files were unorganized and scattered throughout Finance. The auditors could not locate documentation for expenditures totaling about \$49,000 in Finance's files. The auditor attempted to trace \$4,100 cash receipts from employees to the City's Cashiering System and was not able to locate approximately \$700 these cash

receipts. In this situation, if the resources are misused, the City may not detect it in a timely manner.

- During the audit period, the policy required that the City employees submit completed travel settlements to Finance within 10 business days from their return from travel. However, for the travel advances totaling approximately \$96,000 the settlements were on an average of 144 days past due.
- Several travel settlements were inaccurately completed, improperly approved and lacked supporting documentation. Without supporting documentation and approvals, Finance cannot properly evaluate these travel expenditures for authorization and appropriateness.
- Portions of the City's travel policy during the audit period contained ambiguities that were subject to interpretation. This resulted in the departments inconsistently processing travel expenditures. During the audit period, Finance did not enforce compliance with the travel policies.
- Some City employees have not received training or guidance on the travel policy. Finance must train the designated employees handling travel requests to adhere to the travel policy.
- The audit found an inefficient accounting procedure. It occurred due to a lack of proper training of Finance staff.

The former Finance employee that processed travel expenditures left the City's employment in November 2016. This former employee was not available for auditors' interview. Finance has hired a new employee in that position. The Assistant Controller for Disbursements supervises this employee.

The City Auditor's Office appreciates cooperation from the City employees assisting the auditors during this audit. The exhibit A to this report includes the Finance Department's response to the audit recommendations in this report. Please contact me if you have any questions or comments.

Sincerely,

*Umesh Dalal*

Umesh Dalal, CPA, CIA, CIG  
City Auditor

cc: The Richmond City Audit Committee  
The Richmond City Council  
Ms. Lenora Reid, DCAO Finance & Administration  
Mr. John Wack, Director of Finance

# Comprehensive List of Recommendations

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## BACKGROUND

The City has a policy to reimburse all necessary expenses incurred while traveling for City business (e.g. transportation, lodging, per diem<sup>1</sup>). This policy was last updated in January and July 2017, the first comprehensive changes in the policy in many years. Travel covered by this policy includes trips outside the City for conventions, forums, conferences, workshops, seminars, and for other City business activities. Also, employees are reimbursed for using their personal vehicles at the mileage rate set by the Internal Revenue Service for local travel necessary in the performance of their duties. The Policy specified certain non-reimbursable expenses such as alcoholic beverages and personal expenses. During FY14 through FY16, an average of approximately \$900,000<sup>2</sup> was spent per year on travel expenditures. The comparative graph of the travel expenditures during the past three fiscal years is presented as follows:



Source: Auditor prepared from RAPIDS Data

The travel function is a coordinated effort between the Finance Department and the other City departments/agencies. The departments/agencies are responsible for ensuring the following related to travel expenses:

- Necessity, reasonableness, and legitimacy of the expenses;

<sup>1</sup> The City of Richmond follows the High-Low Substantiation Method, which differentiates between high cost and low cost localities, as provided by the U.S. General Services Administration (GSA).

<sup>2</sup> Expenditure total includes advances, settlements, reimbursements and pre-paid travel items (e.g. registration fees, airfare, etc.), which could be readily identified.

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- Spending within available budget;
- Proper approvals;
- Cost effectiveness; and
- Timely submission of accurate information and adequate documentation to the Finance Department.

The Finance Department is responsible for:

- Establishing policies and procedures for travel services;
- Reviewing travel advances, settlements, and reimbursements for accuracy, completeness, and compliance with travel policy and procedure;
- Processing and issuing travel advances and reimbursements;
- Processing receipts of monies owed back to the City; and
- Conducting reconciliations to identify outstanding advances for which settlements have not been processed.

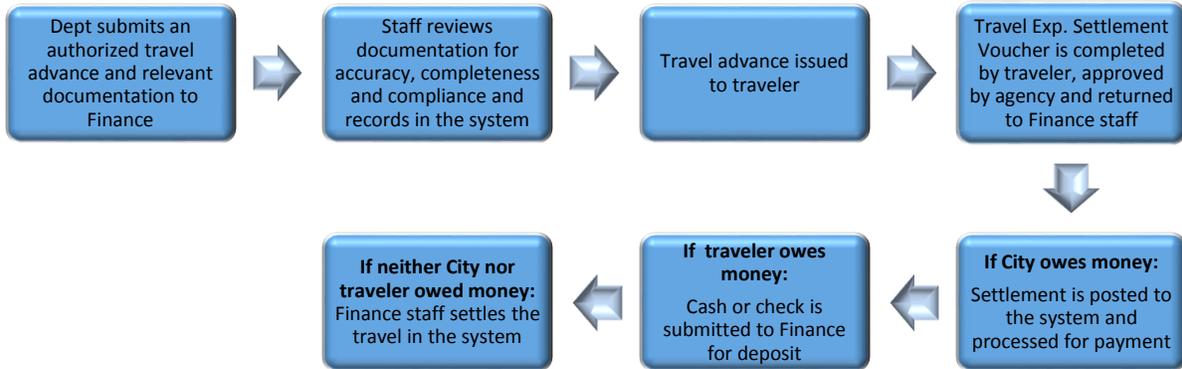
The Account Specialist II that was responsible for processing travel advances, settlements, and reimbursements left employment with the City in November 2016 and the auditors were unable to interview the staff. This role is now being performed by an Account Specialist II that was recently hired, and overseen by the Assistant Controller for Disbursements. The following flowchart outlines the written procedures in place during the audit period:

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Source: Auditor prepared

**MANAGEMENT RESPONSIBILITY**

The City management is responsible for ensuring that public resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

## **FINDINGS & RECOMMENDATIONS**

### **Internal Controls Need Significant Improvement**

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Adequate internal controls are critical to ensure that all travel expenditures are necessary and legitimate. Based on the audit observations, inquiries, and available evidence, the auditors concluded that adequate controls and procedures were not in place during the 18-month period ending 12/31/16 for the travel advance/settlement process, which could have exposed the City to potential errors, non-compliance with policies, and fraud. However, the audit test work did not reveal any fraudulent transactions.

Prior to the start of this audit, the City Controller had identified and communicated many of the issues discussed in this report to the auditors. The City Controller has begun taking proactive measures to address these issues.

The following issues were root causes of the weak internal controls over the travel process:

- Policies and procedures were unclear and the staff processing these payments in the Finance and user departments were not trained.
- Management oversight was lacking, which led to lack of proper checks and balances.
- There was a lack of enforcement of policies and procedures.

These findings are discussed as follows:

**Travel Policy was unclear and training was not provided during the review period**

Portions of the City's travel policy were unclear and contained ambiguities that were subject to interpretation. For example,

- Meals provided as a part of the registration or lodging cost were required to be deducted from the per diem. Under the Administrative Regulation in place, during the audit, it was unclear when a continental breakfast or reception should be counted as a meal and deducted from the per diem. The decision on whether a continental breakfast or food provided at a reception were sufficient to serve as a meal was left to the discretion of the traveler. This has been clarified in the new policy.
- The travel policy dictates that the per diem is paid at 75% for travel days. However, it was unclear how to handle meals provided on travel days resulting in an inconsistent approach among City departments and Finance. Some departments deducted the provided meals from the prorated per diem (75%), while others did not. The Account Specialist II did not deduct the provided meals from prorated per diem on travel days. Recently, the Assistant Controller explained that the provided meals should not be deducted from the per diem on travel days as the per diem is already prorated at 75%.

The above observations indicate that some City employees have not received consistent training or guidance on the travel policy. The designated departmental representative that handles travel requests should be properly trained on the travel policy.

**Recommendation:**

1. The City Controller needs to update the travel policies and procedures to reflect current practices and requirements and distribute to employees.
2. The DCAO over Finance and Administration needs to ensure that the Finance Department provides training to designated City employees on the travel policy.

**Management oversight was lacking, which led to inadequate checks and balances**

The previous Account Specialist II in the Finance Department was responsible for processing travel related expenses. According to the City Controller, the former Account Specialist II processed travel request with limited oversight.

Management oversight is critical to verify accuracy and completeness of work performed by an employee. Specifically, if an employee is handling cash, management oversight is necessary to verify accountability and minimize the risk of fraud.

**Lack of segregation of duties created a significant internal control weakness**

Chapter 6, Section 3 of the Department of Finance Policy is not entirely reflective of the current practices employed by the Finance Department for processing and issuing travel advances and settlements. The former Account Specialist II did not follow the existing policies and procedures during the review period, which compromised the internal controls in this function as noted below.

The policy calls for separation of duties such that the entire travel related transaction is not processed by a single employee. Without this control, any occurrences of fraud and misappropriation of City funds may not be detected and corrected in a timely manner. Although the audit did not identify any fraudulent transactions, weak controls leading to these events could have resulted in a financial loss and harm to the City's reputation. The previous Account Specialist II responsible for processing travel transactions conducted the following incompatible duties during the review period:

- Assessed the requests for accuracy, completeness, and compliance with policies and procedures;
- Corrected errors on the requests (e.g. adjusted mileage and per diem rates);
- Posted the requests in the financial system to generate payments;
- Processed and keyed travel settlements in the system to close out travel advances;

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- Collected money (both cash and checks) owed back to the City from employees; and
- Completed the paperwork needed to process the funds for deposit and remitted to the Cashier Office for processing.

The Travel Policy required City employees to remit monies owed to the City to the Cashiering Unit. They were required to attach receipts to their travel documents and submit to Accounts Payable for processing. This procedure provided proper segregation between cash collection and document processing. However, it is unknown why the established procedures were not followed and the former Account Specialist II started accepting cash and checks from City employees. This change in procedure circumvented controls, but was corrected in January 2017.

Given the inadequate separation of duties noted above, the auditor reviewed a sample of 30 travel vouchers where employees paid the City for amounts owed. Collectively, the amount owed on these vouchers totaled approximately \$4,100. The auditor was able to trace receipts totaling approximately \$3,400 for 23 vouchers through the City's cash register system. A time lag was noted between the receipt of travel settlements, posting the settlements in the financial system, and forwarding the amount collected to the City Cashiering Unit for bank deposit. The time lag varied from a few days to approximately two months. This delay and lack of receipts made tracing these amounts in the cash register system difficult. This also means that the Finance Department's management may not be able to verify proper deposits easily. The auditor could not conclude if the remaining seven vouchers were processed through the cash register system due to lack of documentation and information. This finding indicates that the accountability over the cash collected by the Account Specialist II needs improvement.

**Pay-ins were inappropriately posted to the City Departments' accounting line**

Travel advances were posted to a prepaid account in the general fund and were not charged to the departments. Only the actual travel expenses (travel advance less refunds) were charged to the departments after the settlements were completed and processed. However, travel advance refunds were inappropriately posted to the City departments' accounting lines. As such, the departments' travel expenditures were understated as depicted in the below example:

Actual Travel Cost Charged to Department (Travel Advance granted of \$525.56)	\$206.10
Travel Advance Refund Offset posted to Department expenditures	(\$319.46)
Net Travel Cost	(\$113.36)

The above issue occurred due to a lack of proper training of Finance staff.

**Travel documentation was unorganized and made tracing of expenditures difficult**

The auditors found that the files were unorganized and scattered in various locations within the Finance Department. The auditors spent a significant amount of time gathering, organizing, and pulling the documentation together. In some cases, the auditors were unable to locate documentation for payments that were issued during the audit period. For example, expenditure documentation for the sample selections totaling approximately \$49,000 could not be located in the Finance Department files:

- 23 travel advances totaling approximately \$16,000; and
- 19 invoice payment forms totaling approximately \$33,000.

**The Finance Department did not enforce compliance with policies and procedures**

Travel requests which were not in compliance with policies and procedures should have been corrected prior to payment. Also, the travel policy allows the Assistant Controller for

Disbursements to deduct travel advances from employees pay checks, upon one written notice, for failure to complete travel settlements.

The examples of non-compliance with the policy noted during testing are as follows:

**1. Travel Settlements Were Not Completed Timely**

During the audit period, travel settlements were required to be completed and submitted to the Accounts Payable Unit within 10 business days from the employees return from travel. However, based upon the data analytics procedures conducted, it was noted that travel settlements were not processed in the financial system for 130 of 974 (13%) travel advances issued during the audit scope. These travel advances totaled approximately \$96,000. On average, the settlements were 144 days past due. The following table depicts an aging of the past due settlements:

<i>Aging (Days)</i>	<i># of Settlements Past Due</i>
<i>&lt; 30</i>	2
<i>30-60</i>	24
<i>60-90</i>	21
<i>90-180</i>	38
<i>&gt; 180</i>	32
<i>Settlements could not be located</i>	13

Source: Auditor Prepared

The auditor determined that the above delays were attributed to a combination of the departments not submitting the travel settlements and documentation timely to Finance and the former Account Specialist II not keying the submitted settlements into the financial system. Documentation for at least 33 travel settlements were submitted to Accounts Payable but were not keyed into the financial system.

Also, the auditor noted that travel settlements for 78 travel advances issued between May 2013 and December 2014, totaling approximately \$38,000, were processed during the audit period.

Based upon audit testing performed, it was noted that there was a time lag between the Accounts Payable Unit's receipt of travel settlement documentation and settlements being processed in the financial system. The lag time ranged between 1 and 46 business days. The desktop procedures provided to the auditor did not include a timeframe in which the settlements needed to be keyed into the financial system upon receipt. Therefore, it is unknown if the applicable staff had a target or goal in place for keying the settlements during the review period.

Per the City's Travel Policy, monthly reconciliations were to be conducted by the Accounts Payable Unit to identify outstanding travel settlements. However, evidence of such reconciliations was not available to the auditors. Given the number of outstanding settlements noted during testing, if the reconciliations were done, appropriate actions were not taken by Finance and/or the departments to resolve these issues.

When the travel settlements are not completed or completed in a timely manner, the City could be exposed to the following risks:

- Travel expenditures are posted to the incorrect accounting period. As noted above, travel settlements for advances issued between fiscal years 2013 and 2015 were not processed until FY2016 and FY2017. This event could result in overspending by the departments in one year and may not have enough resources during the year in which the expenditures are posted to their account. In addition, this could impact the City's grant reimbursements.
- Employees may be compensated for travel expenditures, which were not incurred. It is the user department's responsibility to ensure the legitimacy and accuracy of travel expenditures. If the settlements and required documentation are not provided, Finance has no assurance that the travel occurred or the claimed expenses were incurred. Also, monies required to be paid back to the City when the actual expenditures are less than the advanced amount may not be received.

The auditor was able to obtain travel settlements for all 130 of the reviewed advances except for 13, which totaled approximately \$13,000. As such, the auditor was unable to verify if these travel expenditures were in compliance with City's policy and if the reported expenditures occurred.

**2. Travel Settlements were Inaccurately Completed, Not Properly Approved and Lacked Supporting Documentation**

Per the City's Travel Policy, both the travel advance and settlement forms must be signed by the traveler and authorized by the department's director or designee. Also, supporting documentation to substantiate the claimed expenditures must be provided. However, the below observations were noted.

- 26 of 130 travel settlements were not signed/authorized by the Department head.
- 62 of 130 travel settlements did not have training agendas included. Without the agendas, it is not possible to determine if meals were provided as part of the conference and if a corresponding reduction was needed for the per diem allowance.
- 16 of 130 travel settlements contained the incorrect advance amounts, which skewed the calculation to determine if employees were due additional money or funds were due back to the City.

**3. Per Diems were Not Consistently Reduced for Provided Meals**

Meals that are included in the lodging and registration costs are non-reimbursable and must be deducted from the per diem. These meals are required to be recorded on the travel vouchers. Based upon review of the travel vouchers, the auditor noted that this policy requirement was not consistently adhered to by the City departments and agencies as well as the Accounts Payable staff. The departments and agencies did not always identify on the travel voucher when meals were provided nor reduce the per diem accordingly. The former Account Specialist II did not always reduce the per diems for provided meals even if this was noted in the provided supporting documentation. Also, the former staff member did not request

agendas from staff to determine if meals were provided during the review period. Failure to reduce the per diem for provided meals unnecessarily increases travel costs for the City.

**Recommendations:**

3. The City Controller needs to ensure that the functions of verifying compliance, accepting cash, and reconciling cash receipts are adequately segregated.
4. The City Controller needs to ensure that the amounts owed to the City are reconciled to the cash receipts processed through the City Cashiering Function.
5. The DCAO of Finance and Administration needs to implement a process to immediately expense the travel advance to the departments instead of booking to a prepaid travel account.
6. The City Controller needs to ensure travel requests are adequately monitored for compliance with policies and procedures and enforce compliance.

## **Appendix A: Objectives, Scope, & Methodology**

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

### **SCOPE and OBJECTIVES**

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The City Auditor's Office has completed an audit of the Employee Travel Expenditures for the period from July 1, 2015 to December 31, 2016. The audit was conducted to determine if employee travel practices were in compliance with the City's travel policies and procedures; determine if duplicate or fraudulent payments occurred; and ensure monies due back to the City were properly paid.

### **METHODOLOGY**

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The auditors performed the following procedures to complete this audit:

- Reviewed travel expenditures for compliance with policies and procedures;
- Identified outstanding travel settlements and followed up with departments and agencies;
- Reviewed payments to determine if duplicate payments occurred;
- Selected a sample of travel settlements for which the monies were due to the city to verify appropriateness of receipts; and
- Performed other test, as deemed necessary.

**MANAGEMENT RESPONSE FORM**

**APPENDIX B**

**2018-01 Citywide - Employee Travel Expenditures Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	The City Controller needs to update the travel policies and procedures to reflect current practices and requirements and distribute to employees.	Y	<i>The City Controller has updated and implemented the new travel policy and procedures on July 5, 2017 that supersedes the Jan. 2017 policy; An e-mail with the new policy was sent to all departments and their leadership team.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	City Controller		July 2017
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Travel policy and procedures
2	The DCAO over Finance and Administration needs to ensure that the Finance Department provides training to City employees on the updated travel policy.	Y	<i>The DCAO has given a directive to provide training on the new policy. The updated travel policy provides detailed information, and additional training can be provided on an as needed basis.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO, Finance & Administration		July 2017
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Travel policy and procedures
3	The City Controller needs to ensure that the functions of verifying compliance, accepting cash, and reconciling cash receipts are adequately segregated.	Y	<i>The City Controller has implemented a new procedure to ensure segregation of duties with accepting and reconciling cash receipts; two Account Specialist II personnel along with the Assistant Controller for Disbursements oversees the process, and cash is no longer accepted by Accounts Payable staff.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	City Controller		February 2017
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
4	The City Controller needs to ensure that the amounts owed to the City are reconciled to the cash receipts processed through the City Cashiering Function.	Y	<i>The City Controller has implemented a new procedure to ensure amounts owed to the City are deposited through the Cashiers and receipts are reconciled on monthly basis.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	City Controller		July 2017
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**MANAGEMENT RESPONSE FORM**

**APPENDIX B**

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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	The DCAO of Finance and Administration needs to implement a process to immediately expense the travel advance to the departments instead of booking to a prepaid travel account.	Y	<i>The DCAO has directed the City Controller to ensure manual processes properly record the respective expenses. Due to system configuration the travel advances has to be booked to the travel prepaid accounts.</i>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	DCAO, Finance & Administration		July 2017
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	The City Controller needs to ensure travel requests are adequately monitored for compliance with policies and procedures and enforce compliance.	Y	<i>The Assistant Controller for Disbursements reviews and approves all travel documentation. The city travel policy and GSA guidance are followed during the review.</i>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	City Controller		July 2017
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
			Travel policy and procedures