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To: The Honorable Jay Musleh, President of the Council
The Honorable James Hilty, President Pro Tem
The Honorable Brent Malever
The Honorable John McLeod
The Honorable Mary Sue Rich
The Honorable Kent Guinn, Mayor
John Zobler, Interim City Manager

Date: February 17, 2015

Re: External Audit Assistance – Travel Expenses

Internal Audit assists the external financial auditors, Purvis Gray and Company, LLP, with specific audit procedures for the Financial Statement Audit for the Fiscal Year Ending September 30, 2014. We have completed procedures for Travel Expenses. These expenditures include intra-county mileage paid to employees using personal vehicles; commercial carrier costs or personal vehicle mileage for travel to conferences, seminars, or for other city business; registration fees; tolls; parking; and per diem reimbursement for meals and incidentals.

The objective of the review was to determine that employee travel expenditures are appropriately paid, comply with the City's Travel Policy that was approved by City Council on November 5, 2013 and the expenditures are appropriately recorded in the City's general ledger. Travel and training/conference registration expenses (that were associated with travel) paid through accounts payable and procurement cards totaled approximately \$404,000 for FY 2014.

Based upon the audit procedures, Internal Audit concludes that overall travel expenses were incurred for appropriate valid city business and expenses have been recorded in the appropriate fiscal period.

Internal Audit's review of the Travel Policy and its testing procedures of the application of the policy identified opportunities to strengthen controls over the procedures in place to process travel expenses. These opportunities were presented to Management on December 2, 2014. Management has responded in the attached document which outlines its action plan which was implemented in January 2015. Internal Audit will begin Fiscal Year 2015 testing for expenses with the second quarter of the fiscal year to ensure that testing will address the process changes. We will continue to work with Management to assure adequate internal controls over travel expenditures and identify efficiencies in the travel reimbursement process.

Generally Accepted Government Auditing Standards and the Institute of Internal Auditors Standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our observations and conclusions.

Handwritten signature of S. KaRhonda Leslie in blue ink.

S. KaRhonda Leslie, Assistant Internal Auditor

Handwritten signature of Jeanne Covington in blue ink.

Jeanne Covington, Internal City Auditor

c: Diane Reichard, Assistant City Manager and CFO
Mary Ann Davis, Finance Director



FY 2014 External Audit Assistance – Travel Expenses

Audit Wrap-up Conference: December 2, 2014

Participants: Diane Reichard, CFO and Assistant City Manager; S. KaRhonda Leslie, Assistant City Auditor; Jeanne Covington, Internal City Auditor

Purpose: To discuss the results of the travel expense testing completed on behalf by Internal Audit for the City's External Auditors, Purvis Gray and Co., LLP. The objective of the testing was to ensure travel was for valid business purposes, transactions are appropriately recorded in the financial records, transactions are processed in compliance with the current travel policy, and to review the internal controls over the process.

Based upon auditing procedures, Internal Audit concludes that overall, travel expenses were incurred for appropriate valid city business. However, not all transactions were recorded in the City's financial records in the appropriate fiscal year.

The review and application of the current Travel Policy that was approved by City Council on November 5, 2013 has identified opportunities to strengthen controls over travel expenses and the procedures in place to process travel expenses which are outlined in the attached document.

Internal Audit is requesting that management formally respond to the opportunities discussed during this meeting by December 29, 2014. This document, including management's response will be attached to the audit report issued to City Council.

Observations, Recommendations, and Management's Response

(Management's response should include an action plan to address the opportunities along with estimated implementation dates of the action plan)

	Observation	Discussion of Criteria, Cause and Effect	Recommendations	Management Response
Travel Expense Forms and Supporting Documentation Retention	<p>The current process requires that all completed travel expense forms and supporting documentation (receipts, brochures) be retained on the City's Share drive. Generally, this responsibility has been delegated to the department fiscal and/or an assigned admin; however there is no formal documentation to support this delegated responsibility. Completed travel expense forms and the backup documentation are not required to be filed and retained in the same file. Naming convention of the files within the folders is not standardized.</p> <p>We were not able to find 9 (36%) of the travel forms of the 25 transactions selected for review filed on the City Share drive.</p> <p>We were not able to find supporting documentation for 14 (56%) of the transactions filed on the City Share drive.</p> <p>To validate the transactions and perform other testing procedures required Internal Audit to find the documentation through other sources such as procurement card receipts, obtaining information from the department and/or traveler, and obtaining the travel forms from records held in the Payroll department. Payroll is not required by the current process to retain the form and does not retain any supporting documentation.</p> <p>The City Share drive does not provide for secure document retention. Files can be deleted.</p>	<p><i>Current policy assigns the responsibility to retain the Travel Expense Report and backup information subject to audit to the Department/Division Director. There are no provisions to delegate this responsibility.</i></p> <p><i>IRS requires employers to retain all records, including expenses reimbursements and substantiation of such expenses for 4 years. GSA-1 retention period for payroll records is 5 fiscal years.</i></p> <p><i>There is no control in place to assure that all forms and supporting documentation are properly filed, easily accessible and readily available, nor are there controls to ensure that the documents are not intentionally or accidentally deleted; information may not be retained to meet retention periods set forth by IRS and GSA or to support the expense. The department responsible for payment of the expenses (Finance/Payroll) does not have the responsibility to retain the support for these expense reimbursements.</i></p>	<p>Since travel expenses generally result in payment to the traveler through an advance or final settlement paid through payroll, all documentation to support such payments should be retained by the Finance/Payroll department that is responsible for the payment. Controls should be put in place to ensure that all completed forms and support are filed in a secure location that is easily assessable and retained for the required period at the time that actual expenses are certified and any settlement to or from the employee is processed.</p>	<p>Changes were made in January 2015 to the City Share drive that limits the ability to change/delete documents only to select Finance personnel who will ensure secure document retention. Once the information is retained on the share drive, the file cannot be deleted or moved. These documents will be retained for five years to meet the retention period for IRS and State of Florida General Records Schedule..</p>

Observation	<i>Discussion of Criteria, Cause and Effect</i>	Recommendations	Management Response
<p>Based upon the information filed on the City's Share drive, of the 25 employee travel events reviewed:</p> <ul style="list-style-type: none"> • A travel expense report could not be located for 9 (36%) travel events outside Marion County • 15 (60%) travel expense reports did not have a department/division director authorize the certification of estimated expenses prior to incurring the expense nor could we document any other form of authorization prior to travel (such as an e-mail from the department director or division head); 9 of the 15 had someone other than a department/division director authorize expense prior to travel with no documentation that the task was delegated; the remaining 6 did not have any pre-travel authorization. • 10 (40%) travel expense reports did not have a department/division director certify actual expenses after the travel occurred; 3 had someone other than the department/division director certify actual expenses with no documentation that the task was delegated; 7 did not have any certification of actual expenses after travel occurred. We were able to find one of the 7 travel forms with appropriate certification of the actual expense on file in Payroll. • 6 (24%) travel events did not have documentation available to allow us to determine if the travel was for business purposes. 	<p><i>The current travel policy assigns the responsibility of the Department /Division Directors to:</i></p> <ul style="list-style-type: none"> • <i>ensure that travel is related to City business and expenses are reasonable and necessary in accordance with policy;</i> • <i>review travel related documentation to ensure that travelers have adhered to the travel policy;</i> • <i>ensure that accurate and complete Travel Expense Reports are submitted within accordance with the schedule established in this policy;</i> • <i>authorize travel and approve the Travel Expense Report; and</i> • <i>retain Travel Expense Report and backup information subject to audit.</i> <p><i>Since department/division directors are not being meeting the responsibilities set forth in the travel policy, unauthorized travel and unsupported expenditures can occur.</i></p>	<p>A department director and/or division head should be responsible for pre-authorizing travel and certifying the actual expenses incurred. This would require that travel requests and actual expenditures have sufficient supporting documentation to allow the director or division head to adequately perform this responsibility which would require support for the purpose of the travel and support to validate the expenses.</p> <p>Controls need to be established to ensure that all travel expenditures are fully supported and approved.</p> <p>This may require a single point of final review for all City travel.</p>	<p>The CFO met with City Manager's Office on December 3, the finance committee on December 8, and Senior Leadership on January 14 to discuss the audit findings and our responsibility to follow the adopted travel policy and enhance our critical review of travel expenditures. Attached is the summarized information presented to them.</p> <p>Senior Leadership also received an email on January 19 with the travel policy attached. Departmental financial representatives will contact Internal Audit to review specific departmental issues identified during the audit.</p> <p>Effective January 1, 2015, Finance reviews all travel prior to release of payment, which includes:</p> <ul style="list-style-type: none"> • the form is complete, • business purpose validated, • documentation is saved in U drive, • consistent file naming convention • department/division head signature <p>Each form is date stamped, scanned to travel folder, given to Administrative Assistant who reviews and secures approval. Once Payroll receives the forms, the corrections spreadsheet is updated for import during payroll processing. The final form is rescanned to replace the original scan, which includes: date stamp, CFO initials, payroll signature and other notes.</p>

	Observation	<i>Discussion of Criteria, Cause and Effect</i>	Recommendations	Management Response
Travel Expense Report submission to Finance	<p>The current travel form has a section indicating the date the form is received by Payroll and the date to be paid. This section is not being utilized. None of the forms that we reviewed from the City Share drive had this information completed. Payroll is stamping the date the form is received and the date that it was entered into the payroll system on the paper copy that payroll retains; however, this is not the form that is being retained to support the travel expenses.</p> <ul style="list-style-type: none"> Two certifications of actual travel expense were dated more than 15 days after travel was completed. The remaining travel forms that were reviewed from the City Share drive had certifications of actual expenses that were dated within 15 days of completed travel, however, we were unable to determine if these forms were received in Finance within the time line set forth in the policy. 	<p><i>The current Travel Policy assigns travelers the responsibility to submit Travel Expense Reports to Finance within 15 business days after the completion of travel which documents all expenses related to the total cost of travel. Since the records retained on the City's Share drive does not document the date of receipts, we cannot determine if this policy requirement is being met. This could result in non-timely settlements to the traveler or the City.</i></p>	<p>The travel expense report retained should include the date received by Payroll and the final settlement is processed in the payroll system.</p>	<p>Beginning January 1, 2015, Payroll and Finance make notes on the travel form before it is processed and that document is scanned to the travel folder in the U drive to show that the settlement was processed. Part of the payroll verification includes:</p> <ul style="list-style-type: none"> date stamp based on dated received to verify the 15-day time limit, date the payment was processed, and whether the reimbursement is taxable or not.

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Meal and Incidentals	<p>Of the 25 travel events reviewed, per diem for meals paid included:</p> <ul style="list-style-type: none"> • 3 (12%) travelers received per diems for meals provided by the hotel and/or conference. • 9 (36%) travelers received per diems for meals without a conference itinerary to substantiate that meals were not provided by the conference. • 1 (4%) traveler received the higher per diem rate for the destination city for all meals incurred for a travel by vehicle to another state which entailed 4 travel days. • 4 (16%) travelers received per diem for meals that were ineligible based upon arrival and/or departure times reported on the travel form. 	<p><i>Per the current Travel policy, employees shall be paid per diem for City related travel in accordance with US General Services Administration (GSA) schedule for the City of Ocala with breakfast being paid when travel begins prior to 6 a.m. and extends beyond 8 a.m., lunch when travel begins prior to noon and extends beyond 2 pm and dinner when travel beings prior to 6 pm and extends beyond 8 pm. A director may allow traveler to use a different GSA meal allowance schedule when traveling to other areas. Any meal, excluding a continental breakfast, that is provided as part of the hotel or conference registration is not eligible to be paid under the per diem rate. Meals not eaten should not be claimed. No receipts for meals are required.</i></p> <p><i>Without providing receipts, there is no documentation that the meal was purchased (and thus eaten).</i></p> <p><i>The current policy places several restrictions that increase the time and effort required to administer as well as audit the policy. Times of departure and arrival are estimates and cannot be documented, nor can the type of meals that hotels provide often cannot be determined without considerable research. These administrative efforts may cost the City more than paying for actual meals purchased.</i></p>	<p>Consideration should be given to reword the policy We recommend that the policy should be changed from “meals not eaten should not be claimed” to “meals not purchased should not be claimed”.</p> <p>We recommend that the meal section be revised to simplify meal reimbursement negating the requirement to document times of departure and return as well as the need to determine if a hotel or conference provides the meal. To substantiate that only necessary expenses are being reimbursed by the City, we recommend that all meals require a receipt.</p> <p>Meals should be reimbursed up to a maximum daily amount based upon the GSA daily limit for Ocala (\$46 per day) or if approved by a department director, based upon the GSA meal allowance for the area that the meal(s) is being purchased.</p> <p>If receipts are not required, employees should certify on the travel form that per diem is being claimed only for meals “purchased” for themselves.</p>	<p>The City will spend the remainder of the fiscal year with the current travel policy. Upon completion of internal audit for FY 2015, all policy changes will be considered in the next update.</p> <p>During the meetings previously mentioned, the CFO explained some of the findings. The CFO reminded the directors that adhering to the travel policy is ultimately their responsibility and they should tighten up on their review of travel times that were set up to allow employees reimbursement for leaving the house early or arriving home late, if they did not charge an overnight stay.</p> <p>GSA rate, established as an option to ensure that employees are compensated for expensive travel costs, is not automatic. Again, department directors were advised and are ultimately responsible and will monitor. Lack of compliance with the policy could generate the need for additional controls.</p> <p>When the employee signs the form they are certifying their travel expenses. The following statement, currently on the travel form, ultimately holds the employee accountable.</p> <p><i>“I affirm that the actual expenses are true and correct and were incurred by me as necessary traveling expenses in the performance of my official duties and that no charges are included that are unallowable expenses.”</i></p>

	Observation	<i>Discussion of Criteria, Cause and Effect</i>	Recommendations	Management Response
Same Day Travel	<p>For travel expenses reimbursed to employees for same day travel, we found 2 instances of reimbursed lunch expenses incurred were not taxed. This represented 100% of the travel events reviewed that encompassed same day travel.</p>	<p><i>Per IRS regulations, meals reimbursed for same day travel which does not require an overnight stay, is a taxable fringe benefit.</i></p> <p><i>Failure to classify reimbursed meals for same day travel as a taxable fringe benefit does not fully report the employee and employer tax liability and subsequent tax payments which could result IRS penalties for failure to report taxable income.</i></p>	<p>For the current calendar year, Management should identify all meal reimbursements for same day travel and ensure that the reimbursement is reported as a taxable fringe benefit on the employees' 2014 W-2s.</p> <p>Additionally, controls should be put in place to assure that all future payments made to employees for same day travel meals are reported as taxable income.</p>	<p>This was corrected for all of 2014 on the final check in December and will be continued from this point forward. Payroll has been informed and began to monitor on January 1, 2015.</p>
Financial Reporting	<p>Two registrations and hotel accommodations were booked in January 2014 for travel in October 2014 totaling \$1,752.72.</p> <p>Fuel purchases were recorded in the City's financial records as fuel purchases or as travel expenses.</p> <p>Travel advances to employees were not recorded as a receivable due to the City in the City's financial records.</p>	<p><i>Generally accepted accounting principles require that payments made in the previous fiscal year for the current fiscal year be recorded as a pre-paid expense in the previous fiscal year.</i></p> <p><i>Failure to classify pre-paid expenses appropriately and inconsistent application of accounting codes results in inaccurate financial results for the City.</i></p> <p><i>Failure to record travel advances as receivables and require periodic reconciliation of the receivables account increases the risk that an advance will not be settled appropriately and amounts due to the City may not be identified and collected.</i></p>	<p>A process should be put in place to ensure that expenses are recorded in the proper fiscal period and account classification is appropriate and consistent.</p> <p>All advances paid to employees should be recorded as a receivable due to the City until the travel has occurred and the final cost of travel has been settled. A reconciliation process should be established to accurately track advances to ensure all advances are settled in a timely manner and all amounts due back to the City are received.</p>	<p>The travel that was booked in January 2014 as a FY 2014 expense has been reclassified to October 2014 as an expense for FY 2015.</p> <p>Fuel purchases should be charged to travel. P-card transactions for gas purchased will be compared to travel documentation to assure fuel purchases are coded correctly for financial reporting purposes.</p> <p>Securing approval in advance began November 2013 with the revised travel policy. In January 2015, Payroll began tracking travel advances on a spreadsheet that is reviewed bi-weekly. Recording receivables through the EDEN payroll system is cumbersome. Advances go through the same review process before payment is released. Payroll monitors the advance requests monthly to ensure that the final documentation has been received with initials added to the file on the advance document in the U drive to signify done.</p>

	Observation	<i>Discussion of Criteria, Cause and Effect</i>	Recommendations	Management Response
Other Policy Considerations	<p>We also noted the following concerns:</p> <ul style="list-style-type: none"> • Receipts for hotel lodging can include the confirmation receipt rather than the itemized charges for the stay. • One employee received reimbursement for tolls outside of the travel period. It appears that the traveler may have stayed at his destination for a longer period for personal reasons and included the tolls as expenses for the return trip; however no documentation or notes indicated the reason for the inconsistent dates. • Two instances of registrations not paid by the preferred method of a p-card which resulted in the City paying \$20 for the vendor to issue paper invoices. 	<p><i>The purpose for the travel policy is to establish policies and procedures for the payment and/or reimbursement of expenses incurred while traveling on official City of Ocala business.</i></p> <p><i>The current travel policy states that if a hotel is booked via internet, confirmation that states the amount shall be submitted to verify the cost. However, the booking receipt does not document the stay, nor does it detail every charge that may have been incurred which may result in undocumented and reported travel expenses.</i></p> <p><i>Per the travel policy, the p-card is the preferred method of payment.</i></p> <p><i>Supporting documentation that supports the full costs and receipts that coincide with the dates of travel will substantiate that all travel expenses are related to official City of Ocala business and handled through the most efficient means.</i></p>	<p>Management should address the travel policy wording and requirements to lessen the risk that the travel expenses may have the appearance of not meeting the requirements of traveling on official City of Ocala business.</p>	<p>Part of the Finance review will include all areas mentioned since documentation must be supplied prior to reimbursement. The travel details prior to employee reimbursement will reduce the number of errors. P-card is simply the preferred method and other payments will be noted and department will be reminded. Confirmations are not acceptable and itemized receipts must be presented before reimbursement is processed.</p> <p>The City will spend the remainder of the fiscal year with the current travel policy. Upon completion of internal audit for FY 2015, all policy changes will be considered in the next update.</p>

Internal Audit will continue to work with management and review travel expenses to address efficiencies and effectiveness of the travel policy. Working with management, we will ensure that management has considered and addressed the opportunities to strengthen internal controls over the procurement card process.

Janne Corington, City Auditor
Internal Audit Signature/Title

2-17-15
Date

Dean Reinhard, CFO/ACM
Executive Leadership Signature/Title

2-17-15
Date