

OFFICE OF THE CITY CONTROLLER



**CITY-WIDE POLICY & PROCEDURE AUDIT PHASE III
POLICY DESIGN/EFFECTIVENESS AND OPERATIONAL
EFFECTIVENESS**

**REVIEW OF ADMINISTRATIVE PROCEDURE 2-5 –
AUTHORIZATION AND REIMBURSEMENT OF LOCAL AND OUT-
OF-TOWN TRAVEL AND TRAVEL RELATED EXPENSES**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



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CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

January 23, 2018

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: REPORT #2018-06
CITY-WIDE POLICY & PROCEDURE AUDIT PHASE III POLICY DESIGN/EFFECTIVENESS
AND OPERATIONAL EFFECTIVENESS REVIEW OF ADMINISTRATIVE PROCEDURE 2-5 –
AUTHORIZATION AND REIMBURSEMENT FOR LOCAL AND OUT-OF-TOWN TRAVEL AND
TRAVEL RELATED EXPENSES**

Mayor Turner:

The Audit Division (AD) of the Office of the City Controller has completed a Compliance Audit of the City of Houston's (City) policy design and operational effectiveness of Administrative Procedure 2-5 (AP 2-5), *Authorization and Reimbursement for Local and Out-of-Town Travel and Travel Related Expenses*, including alignment of the strategic objectives to the framework of the policies, management, monitoring activities, effectiveness of the design, operational effectiveness and departmental compliance with the policy.

This audit looked at the Citywide Policies and Procedures (P&P) Framework and sought to examine internal controls and compliance relating to travel and travel related expenses. The audit was conducted under the following phases:

- Assess Policy Governance Framework;
- Assess Policy Design and Effectiveness;
 - Identify relevant Strategic Objectives and how they are aligned with Policies;
 - Assess Policy Management;
 - Review Policy Monitoring Activities; and
- Test Operational Effectiveness of Specific Policies and Departmental Compliance.

The primary objectives of the audit were to determine:

- Existence, efficiency, and effectiveness for the establishment and maintenance of policy framework that is designed, documented and aligned with the Mayor's Strategic Vision, and applicable laws and regulations;
- Internal controls are in place to monitor the departments' compliance with current framework; and
- Departments' compliance with the existing City of Houston's policies and procedures.

The scope of the audit was all travel and travel-related transactions for the fiscal year July 1, 2014 through June 30, 2015.

Audit Team concluded that the City has established policies and procedures designed to serve as controls around the authorization and reimbursement of travel expenses, however exceptions were noted in several areas including:

- Approval and authorization



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- Payroll liquidation
- Controls over requests for cash advances
- Record retention

Respectfully submitted,

Chris B. Brown
City Controller

xc: Tina Paez, Director, Administration and Regulatory Affairs
City Council Members
Marvalette Hunter, Chief of Staff, Mayor's Office
Tantri Emo, Interim Director, Finance Department
Jerry Adams, Chief Procurement Officer, Finance Department
Harry Hayes, Chief Operations Officer, Mayor's Office
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EXECUTIVE SUMMARY

INTRODUCTION

The Office of the City Controller, Audit Division (AD) has completed a test of the operational effectiveness and compliance with Administrative Policy (AP) 2-5, *Authorization and Reimbursement for Local and Out-of-Town Travel and Travel Related Expenses*. This audit was performed as part of our responsibilities under Article VIII, Section 7 of the City of Houston Charter, Code of Ordinances, and looks at the Citywide Policies and Procedures (P&P) Framework which includes:

- Administrative Policies
- Executive Orders
- Mayor's Policies

The AD sought to examine internal controls and compliance relating to travel and travel related expenses through performing testwork on a sample of travel related transactions selected during Fiscal Year (FY) 2015 from across the spectrum of City of Houston (City) Departments to determine whether they complied with the requirements of AP 2-5. The audit was included in the FY 2015 Audit Plan and was conducted under the following phases:

- Assess Policy Governance Framework;
- Assess Policy Design and Effectiveness;
 - Identify relevant Strategic Objectives and how they are aligned with Policies;
 - Assess Policy Management;
 - Review Policy Monitoring Activities; and
- Test Operational Effectiveness of Specific Policies and Departmental Compliance.

BACKGROUND

Per the provisions of Section 2.1 the purpose of the City's Travel Policy, AP 2-5, is to establish a well-defined travel and payment/reimbursement policy and procedure that provides administrative and financial controls over payments/reimbursements, and advances for travel and travel-related expenses. To achieve this purpose, AP 2-5, under Section 3, Sub-sections 3-1 through 3-4, sets as objectives:

- To outline standardized travel authorization and reimbursement procedures that are uniform and applied consistently Citywide for all persons to achieve maximum economy and efficiency.
 - To outline procedures for obtaining prior approval to attend and make payments or receive reimbursements for expenses at which City business is transacted (i.e., local and out-of-town conventions, conferences, workshops, training and meetings).
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- To outline deadlines for completing reconciliations and liquidations for strict adherence and compliance.
 - To ensure accountability and transparency to taxpayers by reimbursing travel-related expenditures on the basis of actual and per diem costs and by adopting a maximum daily allowance for lodging.

During the course of conducting City business, employees, elected officials and management personnel engage in travel within the state and outside of the country for training on seminars, workshops, etc. and other non-training related events. Such travel and travel-related expenses involves the use of prescribed forms to document the purpose of travel, destination, days of travel, cost, and amount received in advance of travel, etc. in accordance with the requirements of AP 2-5. All travel and travel related expenses whether local, out-of-town or international require authorization and approval in accordance with the provisions of Section 6.1 of AP 2-5 which states in part, *“Determine if the requested travel expense is to conduct official City business that relates directly to the duties and responsibilities of the employee...All approving authorities are responsible for verifying the accuracy and completeness of each travel request.”*

From July 1, 2014 through June 30, 2015, the City processed approximately 14,461 travel expense transactions for General Ledger Account Transactions No. 520905, Travel Training and General Ledger Account Transactions No 520910, Non-Training Travel. These transactions represented approximately \$4,165,657 in travel expenses as detailed in Table 1 (see page 3).

To fulfill the requirements of the audit objectives as outlined above, we identified six (6) critical sections of AP 2-5 under which the audit procedures were performed. The critical areas were:

- Approvals
- Travel Cash Advance
- Use of P-Card for Travel
- Local and Out-of-Town Travel Expenditure
- Reconciliation of Travel Related Expenses
- Payroll Liquidation of Travel Cash Advance

We noted that the City exhibited satisfactory performance in administering oversight over usage of Itemized Receipts to support travel expenditures, ensuring that the process does not result in duplication for per diem payments with receipt processing. Additionally, we noted the City performs well in the area of ensuring that ineligible expenditures are not authorized and approved. We noted that ineligible expenditures are not reimbursed.

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TABLE 1		
FY2015 Analysis of Travel Expenditures by Departments		
Department	Transactions	Amount
Health and Human Services	4,442	\$995,831.86
Houston Airports System	2,637	972,794.46
Houston Police Department	2,203	928,282.58
Public Works and Engineering	777	283,717.96
Mayor's Office	578	180,916.11
Parks and Recreation	442	94,336.99
Municipal Courts	402	44,073.91
City Council	328	50,980.06
Houston Fire Department	303	39,923.19
General Services Department	290	39,601.33
Department of Neighborhoods	276	36,768.53
Human Resources	266	67,572.40
Housing and Community Development	262	70,601.57
Houston Emergency Center	186	76,913.87
Admin & Regulatory Affairs	185	51,734.34
Solid Waste Management	172	36,061.48
City Controller's Office	163	30,517.77
Legal Department	134	25,512.58
Finance Department	95	30,318.89
Planning and Development	87	23,684.26
Office of Business Opportunity	82	29,078.42
HITS	77	30,217.13
Houston Public Library	34	15,843.41
Fleet Management	22	10,126.52
Citywide General Government	18	247.52
Total	14,461	\$4,165,657.14

The total expenditures for FY16 and FY17 were as follows:

TABLE 2		
Summary of FY2016 and FY2017 Travel Expenditures		
	Transactions	Amount
Fiscal Year 2016	13,436	\$3,469,713
Fiscal Year 2017	14,284	\$4,220,253

We obtained an understanding of the internal controls and compliance matters for these areas as addressed in the relevant sections of AP 2-5. We selected 40 samples of travel and travel related



transactions for each of the sections and performed tests to determine whether the transactions were in accordance with the relevant provisions of AP 2-5.

AUDIT SCOPE AND OBJECTIVES

The primary objectives of the audit are to determine:

- Existence, efficiency, and effectiveness for the establishment and maintenance of policy framework that is designed, documented and aligned with the Mayor's Strategic Vision, and applicable laws and regulations (**Objective #1**);
- Internal controls are in place to monitor the departments' compliance with current framework (**Objective #2**); and
- Departments' compliance with the existing City of Houston's policies and procedures (**Objective #3**).

The scope of the audit was all travel and travel-related transactions for the fiscal year July 1, 2014 through June 30, 2015.

PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve audit objectives and support our conclusions, we performed the following:

- Communicated with various City Departments to gain an understanding of travel processing including, but not limited to, discussions with ARA Staff, City Controller Staff, Finance Department Staff and other departmental travel and accounts payable coordinators;
- Obtained the travel and travel-related transactions from SAP for twelve months of the fiscal year ending June 30, 2015;
- Integrating the travel transaction extract files, we obtained from SAP into our ACL analytical software module for reviewing and selecting a representative sample of travel transactions for testing;
- Obtained support documentation for the samples selected from the City's Paper Vision Document Archival Storage and Retrieval System and performed a review of the documentation to ascertain whether they are in accordance with internal control procedures and compliance requirements.
- Perform alternative procedure of direct access to city departments to obtain support documentation when the Paper Vision Document Archival Storage and Retrieval System proved ineffective in gaining this documentation; and
- Performed substantive testing and documenting the results from testing the travel transactions against our test control criteria and recording exceptions.



During the course of the audit, AP 2-5 was updated and released with an effective date of April 11, 2017. We reviewed the updated policy to determine if the policy changes made would affect our testing, conclusions reached, or recommendations. Upon determining that the policy areas related to our testwork did not change, we elected to retain our original testing sample.

AUDIT METHODOLOGY

We conducted this compliance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS – “*Yellow Book*”) and the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors (IIA – “*Red Book*”). 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.

The scope of our work did not constitute an evaluation of the overall internal control structure of the City of Houston. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Based on work performed, we conclude that the establishment and maintenance of the City’s policy framework is adequately designed, documented and aligned with the Mayor’s strategic vision, and applicable laws and regulations. The framework is considered efficient and effective, as no findings were noted with respect to this objective. However, based on audit work performed, we conclude that there is a need for adequate training of staff on the provisions and requirements of AP 2-5 to enhance internal controls and improve compliance.



CONCLUSION 2 – (AUDIT OBJECTIVE #2)

Based on work performed, we conclude that internal controls put in place to monitor department compliance with the current framework are weak and/or improperly implemented. (See Findings #1, #2, #3, #4, #5 and #6).

CONCLUSION 3 – (AUDIT OBJECTIVE #3)

Based on work performed, we conclude that department compliance with the provisions of AP 2-5 is inconsistent resulting from weak and inadequate internal controls. (See Findings #2, #3, #4 and #5).

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the ARA and Finance Department management staff, City of Houston Department Travel Coordinators, and the City Controller's Office Operations Management for their cooperation, time, and efforts throughout the course of the engagement.

A handwritten signature in black ink, reading "Barry B. Copeland", written over a horizontal dashed line.

Barry B. Copeland, CPA
Assistant City Auditor III

A handwritten signature in blue ink, reading "Olaniyi Oyedele", written over a horizontal dashed line.

Olaniyi Oyedele, CPA
Audit Manager

A handwritten signature in blue ink, reading "Courtney Smith", written over a horizontal dashed line.

Courtney Smith, CPA, CIA, CFE
City Auditor



DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

**FINDING #1 – IMPROPER APPROVAL AND AUTHORIZATION OF TRAVEL EXPENSES AND ADVANCES
RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

BACKGROUND:

The provisions of AP 2-5 contain the following guidelines in connection with approval and authorization of travel expenses and advances:

- Determine if the requested travel expense is to conduct official City business that relates directly to the duties and responsibilities of the employee and will ensure that funds are available to cover the related travel expenses. **(Section 6.1)**
- Request for Cash Advance must include a clear explanation of the business-related purpose of the travel. **(Section 7.4.2)**
- All employees must obtain prior approval for travel within the contiguous 48 states of the United States on the Travel Authorization Request Form (Appendix B). **(Section 7.2)**
- Request for travel outside the contiguous 48 states of the United States must be approved by the Mayor or the Mayor’s designee¹ prior to travel. **(Section 7.3).**
- In order to receive cash advance, both the Request for Travel Advance (Appendix C) and the Travel Authorization Request form (Appendix B) must be signed by the signed by the appropriate approving authority before being submitted to the Controller’s office. **(Section 7.4.1)**

During the course of our audit we selected 40 samples relating to travel and travel related expenses. We obtained support documentation for the samples selected and performed audit procedures to determine whether the transactions were in accordance with the provisions of the relevant sections of AP 2-5 identified above.

FINDING:

Audit procedures performed revealed the following exceptions:

- No supporting documentation were made available for three (3) out of the forty (40) selected for the purpose of our testwork.

¹ The April 11, 2017 update of the policy removes “or the Mayor’s designee”.



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- In twelve (12) instances out of the 37 samples tested, the supporting documentation did not provide clear explanation of the business-related purpose of the travel as required under Section 7.4.2.
 - In thirty-three (33) instances the supporting documentation reviewed did not provide evidence that funds are available to cover the related travel expenses as required under Section 6.1 of AP 2-5.
 - In seventeen (17) instances audit procedures revealed that the required forms were not properly approved and authorized in accordance with the requirements of Sections 7.2 and 7.4.1 respectively.

In aggregate, audit procedures revealed that only two (2) of the samples selected did not have any exception(s). This represents an error and/or exception rate of 95%. In our opinion, based on procedures performed, we consider this too high.

RECOMMENDATIONS:

1. We recommend that management of Administration and Regulatory Affairs (ARA) initiate a workshop/seminar to train City employees on the rules and regulations guiding travel and travel related expenses. Such workshop/seminar should be geared towards exposing all employees to the requirements of AP 2-5 to reduce violations. In addition, workshop/seminar should be organized for management level personnel responsible for approval and authorization of travel expenses and advances. This is necessary to prevent and reduce inappropriate authorizations and approvals of expenses observed during the audit.
2. Although not required by AP 2-5, the City Controller's Department should strengthen its internal control review process to ensure that documentation in support of travel expenses and advance are complete and accurate and are properly approved and authorized.
3. The Audit Division of the Controller's Department should implement a review of the internal control processes relating to travel and travel related expenses and advances on a periodic basis. This additional step will help strengthen the processes and procedures established by management of other City Departments, safeguard City assets, as well as provide feedback for any needed improvements.

ADMINISTRATION AND REGULATORY AFFAIRS MANAGEMENT RESPONSE:

The Administration and Regulatory Affairs (ARA) Department agrees with the need and benefits of training. However, in the interest of providing this training in the most efficient way possible, we recommend mandatory online training for all City employees, similar to the training that has been developed for several recent Human Resources policies. The online training for all City employees will be available through the Talent Management System website to be

developed with the assistance of the Human Resources Department.

ARA also agrees with the recommendation that the Controller's Office should strengthen its internal control review process. While there are other review and control layers to this process, including the manager of the traveling party and the departmental accounts payable manager, the Controller's Office stands as the last layer of review prior to the disbursement of funds.

ARA also agrees regular reviews of AP 2-5 compliance would better safeguard the City's assets. Perhaps the audit section of the Finance Department can assist with this program.

**CONTROLLER'S OFFICE OPERATIONS AND TECHNICAL SERVICES DIVISION (CTR-OPERATIONS)
MANAGEMENT RESPONSE:**

The Controller's office Operations and Technical Services Division (CTR-Operations) agrees to strengthen our internal controls through a review process and will provide additional training to staff on travel related policies. Updates to our internal procedures will be made after our review. Additionally, an audit checklist will be developed by our office to assist in our review of travel expenses.

The City's financial system will not allow the CTR-Operations to process a travel related expense from a department unless there is funding available.

RESPONSIBLE PARTY:

Responsible parties for this item include ARA and the Controller's Office Operations and Technical Services Division.

ESTIMATED DATE OF COMPLETION:

ARA management: December 31, 2017 (Online training module availability).

CTR-Operations management: Three (3) months after the publication of the audit report.

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and proposed corrective actions are appropriate.

FINDING #2 – IMPROPER AND UNTIMELY LIQUIDATION OF OUTSTANDING TRAVEL ADVANCES
RISK RATING (IMPACT AND MAGNITUDE) = HIGH

BACKGROUND:

The provisions of Section 11 of AP 2-5 regarding payroll liquidation of travel cash advance requires that all cash advances must be liquidated under the following guidelines:

- If the cash advance is not liquidated and/or if any excess is not repaid to the City by the collection period deadline: The employee authorizes the City to deduct the entire cash advance from paychecks(s) in the immediate future. (IRS rules require that any balances due to the City past 120 days, be counted as taxable income. These balances are still required to be repaid to the City). **(Section 11.1.1 and 11.1.1.1)**
- The department's accounts payable coordinator will notify the employee that the collection period has passed and will give the employee a copy of the Appendix C indicating the full amount to be deducted during the next pay cycle. **(Section 11.2.1)**
- At this point, the payroll deduction will proceed even if the required documentation is submitted by the employee. **(Section 11.2.1.1)**
- The department's accounts payable coordinator will then forward a copy of the Appendix C and a memo requesting the deduction to the ARA Payroll Services Division to process the payroll deduction. **(Section 11.2.2)**

Additionally, the provisions of Section 10.1 provide that a reconciliation of all travel-related expenses incurred while conducting official business for the City must be completed by submitting the required expense statements within fifteen (15) calendar days after completion of the trip (collection period deadline).

The Controller's Office performs a monthly reconciliation of outstanding travel advances and provides details of overdue and past due amounts to ARA Payroll Services as well as to the respective departments via email. Each department's accounts payable coordinator is required to notify the employee that the collection period has passed and make available to the employee a copy of Appendix C indicating the amount to be deducted during the next pay cycle. Thereafter the department's accounts payable coordinator will then forward a copy of the Appendix C and memo requesting payroll deduction to ARA Payroll Services.

During the course of our audit we obtained the Schedule of Cash Advances for fiscal year 2015. We performed procedures to determine the balance of cash advances that were outstanding as of the end of the year and the number of employee to whom it relates. In addition, we performed procedures to determine whether the liquidations of cash advances were performed in accordance with the provisions of AP 2-5 as identified above. We also inquired of key management personnel at ARA regarding the number of applications for payroll liquidation of travel cash advance that were submitted by the City departments' accounts



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payable coordinator as required under Section 11.2.2. This allowed us to assess the level of compliance and the effectiveness of the procedures.

FINDING:

During FY 2015 (July 1, 2014 through June 30, 2015), there were approximately 1,726 travel cash advances issued to official City of Houston travelers for approximately \$1,333,203. Of this amount, approximately 1,300, representing 75% of travel advance payments valued at \$1,025,190 were not liquidated within the travel liquidation collection period deadline (fifteen (15) calendar days after completion of travel). As a result, in our opinion, the requirements of AP 2-5 were not satisfied and procedures were not followed to ensure compliance. This resulted in untimely liquidation processing and did not ensure travel funds were unencumbered and available for future or other travel purposes. On average, it took 37 days to process these liquidations. We noted that only 288 of the 1,726 travel cash advances were settled within the completion deadline required by the policy. This represented less than seventeen (17) percent of all travel cash advances issued to official travelers.

In addition to the late processing of travel cash advances, there were 28 advances amounting to \$35,164 that were outstanding past the 120 day IRS rules requiring the amount to be considered as taxable income for the affected employees. We selected 15 samples from the list to determine whether ARA was notified by the department's accounts payable coordinator regarding the employee's unliquidated balance and whether an application to begin payroll liquidation was submitted to ARA in connection with the unliquidated employee balance, as required under Section 11.2.2 of AP 2-5. Audit procedures performed revealed that no requests for payroll liquidation of unliquidated balances were submitted to ARA by the affected departments. Further inquiries performed on April 19, 2017, of ARA key management personnel revealed that ARA received an average of 1 payroll liquidation request each year.

RECOMMENDATIONS:

1. We recommend that departmental accounts payable coordinators periodically, review the status of overdue travel cash advances and initiate timely collections procedures in accordance with the requirements of paragraph 11.2 of AP 2-5. This should include sending appropriate collection paperwork to both the employee and ARA Payroll Services.
2. As an additional measure, we recommend that an amendment to AP 2-5 Sections 11.2.1 and 11.2.2 be made to indicate that upon failure of the department's account payable coordinator to initiate necessary collection process as noted in (1) above, the Controller Office's account payable officer, after a review of all procedures and actions taken, initiate a notice to the employee that the collection period deadline has passed and subsequently forward a copy of the Appendix C and memo to ARA for payroll deduction. The benefits of



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such an amendment include:

- (a) It creates uniformity in the system of controls and procedures
- (b) It enhances enforcement and compliance as instructions emanate from an independent source
- (c) It facilitates monitoring activities

ADMINISTRATION AND REGULATORY AFFAIRS MANAGEMENT RESPONSE:

ARA Payroll Services is prepared to process the deductions upon receipt of request from departmental accounts payable managers. Payroll asks that the deduction request be approved by the department director. While both the policy and the travel advance form explicitly state that the advance can be recovered from a single paycheck, Payroll is prepared to set up installment plans for those employees claiming hardship.

If the Controller's Office is willing to take on responsibility for initiating the payroll deduction for employees of all departments, ARA will initiate a policy revision to reflect such upon request of the City Controller. Any policy revision is subject to approval of the Mayor.

CONTROLLER'S OFFICE OPERATIONS AND TECHNICAL SERVICES DIVISION (CTR-OPERATIONS) MANAGEMENT RESPONSE:

CTR-Operations agrees with the recommendation that CTR-Operations initiate a payroll deduction request as a safeguard measure should a department's accounts payable officer fail to initiate the necessary collection process. We believe the department's accounts payable officer should continue to have primary responsibility to properly liquidate outstanding business travel advances.

RESPONSIBLE PARTY:

Responsible parties for this item include ARA and the Controller's Office's Operations and Technical Services Division.

ESTIMATED DATE OF COMPLETION:

ARA: Upon submission of a deduction request, Payroll can process the transaction for the next paycheck if received early enough in the payroll cycle. Otherwise, the subsequent check will have the deduction.

Regarding the policy revision, upon receipt of the request from the City Controller, the revision can be completed for Mayor's signature within four weeks.



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CTR-Operations: One (1) month after the publication of the audit report.

ASSESSMENT OF RESPONSE:

The Audit Division agrees that management responses as provided above sufficiently address the issue identified and the corrective measures proposed are considered appropriate.



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FINDING #3 – IMPROPER USE OF PURCHASE CARD TRANSACTIONS FOR TRAVEL RISK RATING (IMPACT AND MAGNITUDE) = HIGH

BACKGROUND:

The provisions of AP 2-5 allow for the use of a Purchasing Card (P-Card) for travel related expenses under the following conditions:

- Requires prior written approval from the Mayor or Mayor's designee² (Section 7.5.1);
- Submission of this approved letter must be forwarded to the P-Card Administrator in FIN Strategic Purchasing Division (SPD) to update the cardholder's profile for acceptance of travel-related purchases. **(Section 7.5.2)**
- This P-Card profile amendment request may be continuously in effect if a department describes this necessity in the request letter.
- Requests for a travel cash advance on purchases that have been or are planned to be purchased by P-Card (or other City funded source) is strictly prohibited and subject to disciplinary action. **(Section 10.2)**
- The Mayor or Mayor's designee³ shall approve all foreign travel. **(Section 6.1.1)**. The City Controller or the City Controller's designee shall approve foreign travel for all City Controller's Office Staff. **(Section 6.1.3)**

During the course of our testwork, we obtained the population of P-Card travel related expenses. We selected 35 samples and performed procedures to determine whether they were in compliance with the requirements identified above.

FINDING:

The results of our audit procedures revealed the following exceptions relating to P-Card travel related expenses:

- Nineteen (19) samples representing 54% of the total sample selected did not have evidence that a prior written approval from the Mayor or his designee was obtained as required by the provisions of Section 7.5.1.
- In two (2) instances of the 19 samples noted as exceptions above, relating to foreign travel, there were no documentary evidence of prior approval from the Mayor or his designee as required under Section 6.1.1.
- One (1) instance in which another employee, other than the designated credit card holder was granted the use of the credit card was noted.

² The April 11, 2017 update of the policy removes "or Mayor's designee".

³ The April 11, 2017 update of the policy removes "or Mayor's designee".



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RECOMMENDATIONS:

We recommend that a review of the internal control processes relating to the use of P-Card for travel related expenses be carried out. Such review should include but not limited to the following:

- A physical inventory of issued P-Cards. This is necessary to ensure that no management personnel and/or employee is in possession of more than one (1) P-Card at a time.
- Training should be organized on the use of P-Cards for travel related expenses. This is necessary to update users of P-Cards especially new employees and management personnel on the requirements regarding the use of P-Cards for City travel transactions. Training is also recommended for City employees charged with the review and approval of transactions involving the use of P-Cards. This will strengthen internal control processes and procedures.
- The Controller's Department should ensure that all documentation in support of travel related P-Card transactions are complete and accurate prior to approval for posting in the general ledger.

ADMINISTRATION AND REGULATORY AFFAIRS MANAGEMENT RESPONSE:

ARA agrees that an audit of the physical inventory of P-Cards in circulation is prudent. However, ARA is not the P-Card Administrator for the City; thus, any inventory would need to be conducted by the Strategic Purchasing Division of the Finance Department as P-Card Administrator for the City of Houston.

ARA agrees that the Finance Department should develop and incorporate travel policy provisions with regards to the use of P-Cards into existing and mandatory P-Card training courses.

ARA disagrees that the Controller's Office should ensure all required documentation is present prior to posting travel-related P-Card transactions to the general ledger. Regardless of whether lapses have occurred in the internal control of P-Card usage, the P-Card transactions have taken place. They must be accounted for in the general ledger to reflect the payment made to the issuing bank. The expense and cash accounts in the general ledger will otherwise be out of balance.

The Finance Department should be contacted for an estimated completion date for the P-Card inventory to be completed by SPD. In addition, the Finance Department should also, be contacted regarding an estimated completion date for the incorporation of new materials into their P-Card training courses.



FINANCE DEPARTMENT MANAGEMENT RESPONSE:

- AP 2-5 was revised on 4/11/2017 by now Mayor Turner
- Since the beginning of my tenure as CPO, I have final approval for all travel requests using P-Cards
- To ensure P-Card profiles are refreshed each year, a request is submitted from the P-Card Coordinators to send a signed letter requesting approval for all adjustments to profiles above the basic level. These “adjustments” must be approved by each department director. Once a P-Card profile is modified, that cardholder may book travel (and associated expenses) on behalf of the traveler.
- Through the HR training tracking system, all P-Card holders are now required to complete training: 1) prior to issuance of a new card and/or 2) every two years.

We believe the P-Card issues identified in this audit (dated 2014) have been addressed with the positive corrective action put in place.

Currently, the P-Card Policy is under review with recommended changes due to MST⁴ in the next few weeks. All concerns included in the Audit will be addressed to ensure there is 1) a corrective action in place and 2) a periodic validation of compliance.

CONTROLLER’S OFFICE OPERATIONS AND TECHNICAL SERVICES DIVISION (CTR-OPERATIONS) MANAGEMENT RESPONSE:

CTR-Operations does not have a fail-safe way to validate whether a P-Card was used to make a travel related expense. P-Card documentation is handled at the departmental level and CTR-Operations does not advance payments or approve payments related to P-Cards.

Departmental accounts payable officers should be responsible for identifying travel related P-Card payments and report those payments in the employee’s liquidation package that is given to the CTR-Operations.

Additionally, expenditures posted to the general ledger should never be delayed. A reconciling posting can reverse an incorrect general ledger posting after review.

⁴ Strategic Purchasing Division abbreviation “MST” represents Mayor Sylvester Turner.

RESPONSIBLE PARTY:

Responsible parties for this item include the Finance Department (SPD) and the Office of the Controller's Office Operations and Technical Services Division.

ESTIMATED DATE OF COMPLETION:

ARA: The Finance Department should be contacted for an estimated completion date for the P-Card inventory to be conducted by SPD. The Finance Department should be contacted for an estimated completion date for the incorporation of new materials into their P-Card training courses

CTR-Operations; N/A.

FIN (SPD) Response:

P-Card inventory is completed at the end of every quarter. The audit consists of reconciliation of all active and closed P-Cards as well as review of appropriate spending limits and P-Card profiles. P-Card profiles are refreshed at the end of every physical year

The Finance Department should be contacted for an estimated completion date for the incorporation of new materials into their PCard training courses

FIN (SPD) Response:

P-Card Training for new card users as well as a refresher training is made available every month. Prior to the training session, the contents of the training material is reviewed to ensure accuracy to current AP 2-5 guidelines. Training is tracked via the City's TMS program. The latest mass change to the training material was in response to Mayor's revision of AP 2-5 in April of 2017.

ASSESSMENT OF RESPONSE:

The Audit Division acknowledges recent amendment to provisions of Section 7.5.1 relating to the removal of prior approval of P-Card purchases by the Mayor's designee. Management response as presented, sufficiently address issues identified and proposed corrective actions are appropriate.



**FINDING #4 – INADEQUATE CONTROLS OVER REQUESTS FOR CASH ADVANCE
RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

BACKGROUND:

Requests for cash advance are allowed under the following conditions:

- In order to receive a cash advance, both the Request for Travel Advance (Appendix C) and the Travel Authorization Request form (Appendix B) must be signed by the appropriate approving authority before being submitted to the Controller's Office **(Section 7.4.1)**
- Requests must indicate a clear explanation of the business-related purpose of the travel. Request for cash advances shall be submitted to the Controller's Office at least seven (7) working days prior to the anticipated date of departure. **(Section 7.4.2)**
- An employee may be denied a travel cash advance if he/she: (Section 7.4.3)
 - (a) Requests the advance less than seven (7) working days before the advance is needed; **(Section 7.4.3.1)**
 - (b) Has not submitted an expenses report for the previously completed travel; **(Section 7.4.3.2)**
 - (c) Has not reimbursed the City for a travel advance that exceeded the actual cost of travel which has been completed; or **(Section 7.4.3.3)**
 - (d) Requests less than \$100 for travel cash advance. **(Section 7.4.3.4)**

During the course of our audit, we obtained a list of travel cash advances for the year. We selected 39 samples for testing to determine whether they were in compliance with the provisions of 7.4.3 as detailed above.

FINDING:

The results of our audit procedures revealed the following exceptions relating to requests for travel cash advances:

- In nineteen (19) samples, we noted instances where the Travel Authorization (Appendix B) and Request for Travel Advance (Appendix C) were not approved and authorized by the appropriate designee in violation of the requirements of the Section 7.4.1.
- In twenty-one (21) samples, there were no indications that travel requests were submitted at least seven (7) working days prior to departure in violation of the provisions of Section 7.4.2.

RECOMMENDATIONS:

We recommend that a review of the internal control processes relating to requests for travel cash advances be carried out. Such review should include but not be limited to the following:



Office of the City Controller

Audit Division

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- A review of travel cash advance as of a period should be carried out to determine the amount outstanding, the period in which the amount had been outstanding and the employees involved.
 - Where the outstanding balance has exceeded the collection period deadline of 15 calendar days as contained in the provisions of Section 10.1, necessary procedures for collection in accordance with the provisions of Section 11.2.1.
 - Reconciliation of the travel cash advance should continue to be done on a periodic basis by the Controller's Office.
 - Where travel cash balance remains unliquidated for more than 120 days, necessary procedures should be initiated to implement the provisions of Section 11.1.1.1.

ADMINISTRATION AND REGULATORY AFFAIRS MANAGEMENT RESPONSE:

ARA agrees that the Controller's Office should conduct regular reviews regarding outstanding travel advance balances and their associated procedures. This is not within ARA's purview.

CONTROLLER'S OFFICE OPERATIONS AND TECHNICAL SERVICES DIVISION (CTR-OPERATIONS) MANAGEMENT RESPONSE:

CTR-Operations currently reconciles travel cash advances monthly and sends a report to each department.

RESPONSIBLE PARTY:

Responsible parties for this item Controller's Office Operations and Technical Services Division.

ESTIMATED DATE OF COMPLETION:

ARA: The Office of the City Controller should be contacted for an estimate of the time it will take the Controller's Office to complete these reviews.

CTR-Operations: N/A

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and proposed corrective actions are appropriate.



**FINDING #5 – POOR RECORD KEEPING AND MAINTENANCE PROCEDURES OVER TRAVEL DOCUMENTS
RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

BACKGROUND:

Travel activity and transaction including records and documentation within the City of Houston travel is a decentralized process. Departments manage the actual approval and processing of travel and the City Controller’s Office manages the payment and settlement of travel expenses. Document storage and retrieval is a basic requirement associated with travel administration and the management of documentation processing and storage is administered in various city regulations. However, there is no written requirement that defines a central entity responsible for the storage and maintenance of travel documentation. As a result, there are inconsistencies in travel documentation and storage practices throughout the City.

The provisions of Section 6.3 of the AP 2-5 provide minimal guidance on travel documentation storage and retrieval, as it provides that copies of all signed travel request forms must be maintained by the department for three (3) years unless a longer retention period is required due to grant stipulations or other similar rules. Similarly, the Texas Administrative Code (TAC) Title 13 Chapter 6 under Part 1 (Texas State Library and Archives Commission) provides guidelines relating to recordkeeping and maintenance.

For the purpose of testwork, we selected samples of travel and travel-related transactions and requested support documentation for the samples selected.

FINDING:

On several occasions during the course of our audit, our requests for support documentation in connection with the samples selected for testwork were not made available. Such instances are as follows:

- (a) Approval Testwork: Forty (40) travel and travel-related transactions were selected for the purpose of our testwork. 3 samples were unable to be supported by documentation to enable us to perform necessary testwork.
- (b) Payroll Liquidation of Travel Cash Advance Testwork: During the course of audit, we selected 15 samples for the purpose of our testwork. No support documentation was made available for the samples selected.
- (c) Reconciliation of Travel-Related Expenses Testwork: For the purpose of this testwork, we selected forty (40) samples. No support documentation was provided for five (5) samples of the total samples selected.
- (d) Travel Cash Advances Testwork: We selected forty (40) samples for the purpose of our testwork. One (1) sample did not have support documentation to enable us to perform our testwork.



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It is our opinion that the non-availability of support documentation for the samples selected for our testwork not only constitute a limitation in scope of our audit work but in addition is considered a violation of the provisions of Section 6.3 of the AP 2-5.

Furthermore, the inability to provide the support documentation for the samples selected constitute non-compliance with the relevant sections of the Texas State Records Retention Schedule under Texas Administrative Code Title 13, Chapter 6 regarding recordkeeping and maintenance.

RECOMMENDATION:

1. Administrative and Regulatory Affairs (ARA) Department coordinate the review of AP 2-5 as a citywide policy to enhance the recordkeeping and maintenance requirements for travel documentation. This is necessary for the following reasons:
 - a. A central document repository is recommended to maintain compliance with the provisions of Section 6.3 of AP 2-5 and other City ordinances and state regulatory requirements regarding records keeping and maintenance;
 - b. To maintain ease of locating and obtaining travel documentation as needed.

ADMINISTRATION AND REGULATORY AFFAIRS MANAGEMENT RESPONSE:

ARA agrees with the idea of a central repository for travel-related documentation. As this is primarily an accounts payable function, and a partial consolidation of the City-wide accounts payable function has been undertaken by the Finance Department, ARA recommends the Finance Department be appointed the designated repository. If the Finance Department agrees to the appointment, ARA will initiate a policy revision to reflect as much. Any policy revisions must be approved by the Mayor.

FINANCE DEPARTMENT RESPONSE:

Finance Department disagrees and recommends Controller's Office – Accounts Payable to have the central repository as they require all original travel documents to be submitted for processing.

CONTROLLER'S OFFICE OPERATIONS AND TECHNICAL SERVICES DIVISION (CTR-OPERATIONS) MANAGEMENT RESPONSE:

CTR-Operations Division agrees with the recommendation to be the central repository for all original travel documents submitted to the CTR-Operations for processing.

Office of the City Controller
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RESPONSIBLE PARTY:

Responsible parties for this item include; ARA, Controller's Office Operations and Technical Services (CTR-Operations) Division.

ESTIMATED DATE OF COMPLETION:

CTR-Operations: One month after the publication of the audit report.

ARA: Following the management response from the Controller's Office Operations and Technical Services (CTR-Operations) an estimated date of completion cannot be ascertained until a meeting of all the departments concerned is scheduled to address the recommendation. ARA will initiate the administrative policy change, following the decisions reached after the scheduled meeting.

ASSESSMENT OF RESPONSE:

Management response as presented above, sufficiently address issues identified. However, the proposed corrective action should be preceded by a meeting of the identified responsible parties to address any potential conflicts/disagreements.



Office of the City Controller

Audit Division

FINDING #6 – IMPROPER RECONCILIATION OF TRAVEL-RELATED EXPENSES RISK RATING (IMPACT AND MAGNITUDE) = MEDIUM

BACKGROUND:

The provisions of Section 10 of AP 2-5 provide for the reconciliation of travel-related expenses under the following condition:

- Travel Expenses Summary (Appendix D): Except in the case outlined in Section 9, a travel reconciliation of all travel-related expenses incurred while conducting official business for the City must be completed by submitting the required expenses statements within fifteen (15) calendar days after completion of the trip (collection period deadline). Should the final day occur during the weekend or holiday, these documents shall be turned in by the following business day. The expenses report must be signed by the employee and the approving authority. All required receipts must be attached. (Section 10.1)

During the course of our testwork, we selected 40 samples and performed procedures to determine whether travel-related transactions were performed in accordance with the provisions of Section 10.1 as outlined above.

FINDING:

The results of our audit procedures revealed the following exceptions relating to the reconciliation of travel-related expenses:

- In five (5) samples, the Travel Expenses Summary (Appendix D) which itemized the classification of travel expenses were not included as part of the documentation as required under Section 10.1.
- In four (4) instances there were no evidence of approval and authorization of Appendix D in accordance with the provisions of Section 10.1.
- In nineteen (19) samples representing 48% of the total samples of 40, employees failed to submit the required expenses statements within the fifteen (15) calendar days after completion of trip as required under Section 10.1.

RECOMMENDATIONS:

We recommend:

- That a training and/or workshop for new and existing employees be conducted. This is necessary to intimate employees on the requirements of Section 10.1.
 - A report on employees who failed to reconcile their travel-related expenses within the required collection period of 15 days should be prepared and communicated on a periodic basis by the Controller's Office. While not required by AP 2-5, this proactive
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approach will serve as a basis for follow-up of outstanding unreconciled travel expenses.

ADMINISTRATION AND REGULATORY AFFAIRS MANAGEMENT RESPONSE:

ARA agrees with the need for training and commits to developing an online training course covering these topics (see response to Audit Finding #1).

ARA agrees that a report of employees who failed to reconcile their travel-related expenses within 15 days by the Controller's Office is necessary. We recommend this report be distributed to department directors to detect patterns of abuse of the City's travel policy and to aid in disciplinary actions.

CONTROLLER'S OFFICE OPERATIONS AND TECHNICAL SERVICES DIVISION (CTR-OPERATIONS) MANAGEMENT RESPONSE:

CTR-Operations issues a report for all unreconciled travel cash advances. CTR-Operations would not know if all travel-related expenses are unreconciled unless a cash advance was requested. Travel cash advances are not always necessary; therefore, CTR-Operations would not be able to issue a report on all employees who failed to reconcile their travel-related expenses in the time frame stated in the policy.

RESPONSIBLE PARTY:

Administration and Regulatory Affairs, Controller's Office Operations and Technical Services Division.

ESTIMATED DATE OF COMPLETION:

ARA: December 31, 2017 (Online training module availability)

CTR-Operations: N/A

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and proposed corrective actions are appropriate.



EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

ADMINISTRATION AND REGULATORY AFFAIRS

Acknowledgement Statement

Date: December 4, 2017

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: PERFORMANCE AUDIT OF COMPLIANCE WITH CITYWIDE POLICIES AND PROCEDURES - ADMINISTRATIVE POLICY (AP) 2-5, AUTHORIZATION AND REIMBURSEMENT FOR LOCAL AND OUT-OF-TOWN TRAVEL AND TRAVEL RELATED EXPENSES

ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of the Administration and Regulatory Affairs Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



Juan Olguin, Assistant Director
Administration and Regulatory Affairs
Department



EXHIBIT 2

ACKNOWLEDGEMENT STATEMENT

CHIEF PROCUREMENT OFFICER – FINANCE DEPARTMENT

Acknowledgement Statement

Date:

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: PERFORMANCE AUDIT OF COMPLIANCE WITH CITYWIDE POLICIES AND PROCEDURES - ADMINISTRATIVE POLICY (AP) 2-5, AUTHORIZATION AND REIMBURSEMENT FOR LOCAL AND OUT-OF-TOWN TRAVEL AND TRAVEL RELATED EXPENSES

ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of the Finance Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

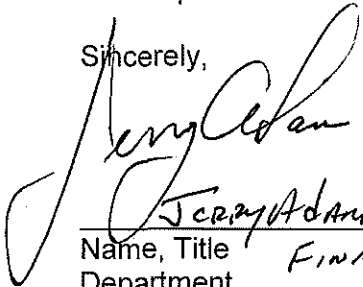

Jerry Adams CPO
Name, Title
Department Finance Dept.



EXHIBIT 3

ACKNOWLEDGEMENT STATEMENT

**OFFICE OF THE CITY CONTROLLER – OPERATIONS AND TECHNICAL
SERVICES DIVISION**

Acknowledgement Statement

December 5, 2017

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: PERFORMANCE AUDIT OF COMPLIANCE WITH CITYWIDE POLICIES AND PROCEDURES - ADMINISTRATIVE POLICY (AP) 2-5, AUTHORIZATION AND REIMBURSEMENT FOR LOCAL AND OUT-OF-TOWN TRAVEL AND TRAVEL RELATED EXPENSES

ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of the Deputy Controller for the Operations & Technical Services Division. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



Alexander W. Obregon, Deputy City Controller
Operations & Technical Services Division
Office of the City Controller

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