

**Sensitive Payments Review
Fiscal Years 2018-2020
Summary**

REASON FOR REVIEW

Sensitive payments are transactions that carry the possibility for city officials, executive management, and certain employees to receive inappropriate benefit due to their position of influence. Because senior government executives are vested with public trust and hold positions with a high degree of decision-making authority, they are subject to potential scrutiny and criticism of the public and media. And while the dollar amounts may not be large, public disclosure can carry undue risks.

HOW WE CONDUCT OUR REVIEW

We conduct our review using the guidance and framework published by the U.S. Government Accountability Office (GAO), "Guide for Evaluating and Testing Controls Over Sensitive Payments." We now incorporate data analytics to aid in identifying executive employee expense transactions that contain potential risk flags, either by the way they were processed (e.g., approval related issues, claim input errors, lack of supporting documentation), or by the nature of the expense.

WHAT WE REVIEWED

The scope included activity from July 1, 2017 to June 30, 2020, designed to encompass a wide range of activities including:

- Compensation
- Travel
- Official Entertainment Funds
- Unvouchered Expenditures
- Contracting and Consulting
- Speaking Honoraria, Gifts and Donations
- Executive Perquisites
- Ethics and Conflict of Interest Rules
- Follow-Up of Prior Findings

SIGNIFICANT RESULTS

Overall, the internal control environment surrounding Sensitive Payments is largely effective; some improvements are needed to strengthen post-system conversion processes, update, and centralize guidance.

KEY OBSERVATIONS

1. One City Councilor's pay was inaccurately coded and exceeded salary established by law.
2. City Charter and related Ordinances require updates to sync outdated Mayor and Council salary information.
3. Executive level travel approval did not comply with Executive Order 2018-06.
4. Travel-related policies are out of date and staff largely rely on desktop procedures, emails and telephone calls for guidance.
5. The internal controls are not sufficient to prevent errors and irregularities in executive travel and reimbursements.
6. Ethics guidance and respective employee onboarding attestations require updates and refresh.

Sensitive Payments Review

Fiscal Years 2018-2020

INTRODUCTION

The City Auditor's Office conducted the first Sensitive Payments Review in 1991, thirty years ago. The Review continues to be a valuable use of audit resources, assessing whether controls are sufficient to protect from senior executive bypass of internal controls and management overrides. While control bypass can be motivated by perceived time savings, or the perception of increased efficiency, it ultimately waters down the strength of internal controls, and can lead to fraud.

In 2018, the City migrated to a new core financial system, selecting Tyler's "MUNIS" system, which offers enterprise resource planning, known as "ERP." Among the many features, the ERP system offers integrated business workflow approval processes, and imaging supporting documentation to allow a digital, one-stop-shop for many functions. Policy guidance embeds into the ERP system through system configurations (i.e., business rules), user roles and permissions. Compliance can be monitored through data analytics. As such, much of the Sensitive Payments Review now includes 100% population sampling.

Employees enter travel and reimbursement expenses through the web-based MUNIS SelfService portal. Significant work has gone into establishing business rules and workflow to align with policy, and generally executive employees are using the portal efficiently and effectively.

Purchases such as airline tickets and hotel reservations are primarily paid by pCard, while other expenses for travel including per diem are paid to employees through the SelfService workflow. The workflow routes to Payroll for processing and payment to the employee in next payroll cycle. Using data analytics, we observed multiple opportunities for increased effectiveness, and issue a separate report accordingly, entitled "*MUNIS SelfService and Workflow Report*" to share those considerations.

OBJECTIVES

- Evaluate the adequacy of the system of internal controls over sensitive payments;
- Assess compliance with applicable laws, ordinances, policies and procedures regarding sensitive payments;
- Determine whether executive expenses are properly authorized and approved;
- Determine whether executive expenses are accurately and promptly recorded and reported; and
- Evaluate corrective action taken on prior year sensitive payment findings.

METHODOLOGY AND RESULTS

Compensation — We reviewed 100% of the employee executive compensation classification for the scope period. There were no executive employees exceeding pay grade limits. One Councilor's pay was incorrectly set up, and subsequently corrected well before exceeding the City Charter limit. Please see observation #1.

Discrepancies existed between Mayoral and Council salary specified in the City Charter and related City Ordinances and require revisions. Please see observation #2.

Travel — Our scope period included transactions between January 3, 2019 to June 30, 2020.

Using data analytics, we reviewed 100% of the MUNIS SelfService activity for compliance issues, errors (e.g., inaccurate payments) and other risk-related indicators. Results showed that not all directors are complying with approvals directed by Executive Order 2018-06. Please see observations #3 and #5.

The data analytic review produced multiple opportunities for improving processes, compliance, and/or efficiencies in SelfService workflow configurations, which are summarized in the report titled, “MUNIS SelfService and Workflow Report.”

Official Entertainment Funds — Our scope period included transactions between January 3, 2019 to June 30, 2020. Data analytics designed to detect certain keywords (e.g., drinks) flagged expenses where City Officials and executive management purchased food and soft drinks in connection with city business (e.g., strategy sessions, luncheon meetings). Each expense was properly approved and supported. We noted no instances of true “entertainment” expenses as defined by GAO, such as entertaining visiting dignitaries and state functions.

There were GL allocation issues where meals (and travel) were not properly classified and reported. This is part of an overarching trend where review and approvals require strengthening in the MUNIS SelfService workflow. Please see observation #4.

Unvouchered Expenditures — Through inquiry and observation, we confirmed the City does not support unvouchered expenditures practices. Payments flow through MUNIS core system workflow (i.e., MUNIS SelfService, pCard or accounts payable / invoicing).

Contracting and Consulting — Through inquiry, we confirmed contracting flows through Procurement, with vendors completing a rigorous package of information to be included as an approved City vendor. Data analytics in the Quarterly Risk Summary look for transactions which may have been conducted with employees. One analytic flags transactions with Vendor Employee Address Matches. The Internal Audit Data Analytics team reviewed this analytic and issued an audit observation in the Accounts Payable October 2020 Audit Report.

Speaking Honoraria, Gifts and Donations — We extracted data for sampling and testing. Our scope from July 1, 2018 to June 30, 2020 included 156 donations in our population. We selected a random sample of 30 donations to determine compliance with City Executive Order(s), Ordinances and related policies. We reviewed Mayor and Council Agendas and Minutes for approvals and noted no exceptions.

Executive Perquisites — Through inquiry and observation, we confirmed the City does not provide executive perquisites meeting the context and spirit of the GAO guidance.

Ethics and Conflict of Interest Rules – Through inquiry and observation, we reviewed City Ordinances, policies in Human Resources, policies in Finance (e.g., pCard) and Human Resources onboarding practices. We observed that immediate family definitions differ between TRO Title 12 Chapter 6 Ethics Code and Personnel Policy 107. Similarly, different guidance is provided on how to address and report a potential conflict of interest, comparing TRO Title 12 Ethics Code to Personnel Policy 419. Finally, the onboarding employee attestations in the Receipt of Policies and Information” is inaccurate. Management review and subsequent revisions are needed. Please see observation #6.

Follow-Up on Prior Observations – We evaluated recommendations from previous Sensitive Payments Reviews to determine whether corrective action was completed. Four prior Sensitive Payments Review observations required follow-up. In each of the four prior observations management and City Officials did what they agreed to do in their respective responses.

OBSERVATIONS

Observation #1 - One City Councilor’s pay was coded for \$23,528 over authorized salary established by law.

A City Councilor’s employee master salary record was set to \$47,528 instead of \$24,000 established by law, and was corrected promptly during the audit, as well as small rounding issues for other Councilors. The errors passed through workflow review and approvals.

Recommendations:

Management was responsive and began resolution immediately to strengthen controls surrounding this error. We discussed and recommend:

- Strengthening the employee master workflow review process, which management had reinforced during the review; and
- Creating unique pay scales for elected unclassified positions to significantly reduce the potential for errors, which management has also begun to implement.

Response:

Management’s corrective action was completed during the audit.

Observation #2 - City Charter and related Ordinances are out of sync for Mayor and Council salary information.

Mayor and City Council's salaries specified in the City Charter should be mirrored, if mentioned, in respective City Ordinances and are out of sync. Specifically, Tulsa City Ordinance (TRO Title 4, Chapter 1, Section 100) designates the Mayor's salary as \$105,000, while the City Charter (Article III, Section 1.2) still reflects \$70,000. The Ordinance is correct.

Conversely, City Council salary is correct in City Charter, and out-of-date in the respective City Ordinance. Specifically, Tulsa City Ordinance (TRO Title 4, Chapter 3, Section 309) designates the City Councilor salary as \$18,000, while City Charter (Article II, Section 2) reflects \$24,000. The Charter is correct.

Recommendation:

We recommend updating the City Charter (Article III, Section 1.2) for Mayor and City Ordinance (TRO Title 4 Chapter 3, Section 309) for City Councilors at the earliest opportunities provided by law.

Response:

The City Council Administrator agreed to complete the Charter and Ordinance revisions at the earliest opportunities. Revisions are currently in progress, with a target completion date of August 2022 for Charter-related revisions.

Observation #3 - Executive level travel approval did not comply with Executive Order 2018-06.

Data analytics flagged instances where executive management approved their own travel and reimbursements, without a level-up approval, as required by Executive Order 2018-06. In one travel claim, the director approved their own travel as the highest-level approval; received \$300 for lodging with no supporting documentation on a trip that included lodging in the registration package. Per TRO Title 12 Section 504, receipts are required. The receipt was subsequently obtained October 15, 2021. We were unable to determine how registration was paid for on this claim and saw no evidence of approval by donation. The trip was expensed through a section that did not have established workflow beyond the Director (e.g., outside the administration section ending in xx11). As such, the claim should have been forwarded to the next level for approval based on guidance in Section 2 of Executive Order 2018-06, and not by an employee who has a direct reporting relationship to the Director.

Recommendations:

We recommend updating Executive Order 2018-06 guidance, reflecting current Mayor delegation expectations (e.g., replace Chief of Staff title with level-up, reporting relationship approvals) and any other changes the Mayor may wish to make. During the final phases of our review, the Deputy Mayor completed this revision which became Executive Order 2021-05. Further guidance could specify in procedures that any Director travel which deviates from their budgeted administrative section should include a workflow forward approval request in line with respective reporting relationships.

Response:

Management's corrective action was completed during the audit.

Observation #4 - Travel-related policies are out of date and staff largely rely on desktop procedures, emails and telephone calls for guidance

Travel guidance spanning from Executive Order 2018-06 and Personnel Policies and Procedures Section 807 collectively require updates in multiple authoritative documents, and integration so that employees readily have access to information needed to travel, including per diem information. Employees have expressed frustration in organizational surveys that essential information is difficult to find and/or not readily available. In addition, the function has moved from Accounts Payable section and into the Finance Department as a whole. Currently information is scattered in ServiceDesk Plus, Doc Library, Executive Order 2018-06, Title 12, Title 25, two desktop procedures, pCard Policies and two Personnel Policies, yet essential procedural information to comply with guidance is only available by email (e.g., current desktop guides and per diem rates).

Recommendations:

Overarching guidance in Executive Order 2018-06 and Personnel Policies and Procedures Section 807 state that travel expense claims will comply with this policy and the **"Finance Travel Policies & Procedures."** We recommend guidance throughout the City be updated and centralized accordingly. This includes Tulsa Revised Ordinances, Executive Orders, Policies and Procedures, Desktop Procedures, and working forms. To assist executive management, specific reference locations are identified in Appendix B of this Report.

Response:

Management agreed with the observation and action planning is in progress. A collaborative discussion meeting is planned for January 21, 2022.

Observation #5 – Internal controls are not sufficient to prevent errors and irregularities in executive travel and reimbursements.

In evaluating data analytics for executive travel claims in MUNIS, evidence showed that workflow review and approval controls were not sufficient to prevent errors and irregularities. Using concepts from the IIA’s “Three Lines of Defense Model” (illustrated in Appendix A), we noted that primary reviewers and approvers (i.e., the first line of defense) did not detect errors. Secondary notification approvers (i.e., the second line of defense) in some cases also did not detect errors, resulting in overpayments to employees (e.g., per diem overpayment), airfare being paid twice (i.e., paid to the vendor, and paid to the employee in error). Other errors included incorrect start or end trip dates, and general ledger allocations misaligned with the nature of the expense(s). Errors, potentially made by the department travel coordinator, impact efficiency and the traveler.

Recommendations:

We recommend providing additional procedural guidance, emphasizing the importance of the review and approval process, particularly by primary workflow review and approvers in steps 10 – 30. This initiative could dove-tail with Observation #4. Among the items to review and ensure accuracy include:

- Travel dates (aligned with Title 25 Section 301 C.4)
- Per diem rates and accuracy of methodology used
- General Ledger Account Allocations (aligned with the nature of the expense)
- Supporting Documentation (aligned with Personnel Policy 807.7, TRO Title 25 Section 301.C.7, and TRO Title 12 Section 504.B)
- Zeroed out actual expenses if paid by pCard (to avoid duplication in payments)

We also recommend using data analytics to monitor compliance with policies. Rejections that occur in step 50 (by the City’s Travel Coordinator) indicate that the primary reviewers and approvers did not accurately detect and correct errors, and additional training and/or focus may be needed.

Response:

Management agreed with the observation and action planning is in progress. Concurrently with observation #4, a collaborative discussion meeting is planned for January 21, 2022.

Observation #6 - Ethics guidance and respective employee onboarding attestations require updates and refresh.

We observed several policy-related updates that would improve the City's Ethics guidance and employee awareness. Specifically:

- 1) **Immediate family definitions** differ in Ordinance and Policy. The Ethics Code in Title 12 Chapter 6 Section 601 defines immediate family as "the City official's spouse, children, parents or spouse's parents and any other family member within **two** degrees of affinity or consanguinity."

By comparison, Personnel Policy (Nepotism & Fraternalization) Section 107.12 defines immediate family as "by blood or marriage, a spouse, child or grandchild, parent or grandparent, brother sister, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, uncle, aunt, nephew, niece, and first cousin, including foster or step members within these relationships. These represent **third** and partially **fourth** degrees of affinity or consanguinity.

In addition, 2 CFR 200, Section 318 with respect to general purchasing, considers a conflict to be "real or apparent." Management may wish to incorporate language that would satisfy federal purchases for grant expenditures.

- 2) **Placement of Conflict of Interest** guidance (i.e., Section 419) is in the Personnel Policies Section 400, "Separation, Grievance and Disciplinary Action" which most employees rarely read. Guidance would be better served in the Personnel Policy area where employees will look for general behavioral guidance, in Section 800.
- 3) Different guidance is provided on **how to address and report a potential conflict of interest**, comparing the TRO Title 12 Chapter 6 Ethics Code to Personnel Policy 419. The Ethics Code in Title 12 states the conflict should be filed with the City Clerk's Office, while Personnel Policy 419 states the employee should make a written report to his or her supervisor, and the supervisor should address it.
- 4) In the **employee onboarding** process, employees are asked to sign the inaccurate "Receipt of Policies and Information." The paragraph on Ethics states, "I hereby acknowledge receipt of the Ethics Handbook which includes Chapter 6 of the Tulsa Revised Ordinances, Title 12." The City does not currently provide an Ethics Handbook.

Recommendations:

To improve ethical guidance and focus, we recommend:

- 1) Reviewing and updating immediate family definitions in City guidance for clarity;
- 2) Consider moving Personnel Conflict of Interest Policy 419 to Section 800;
- 3) Updating Personnel Policy 419 to align with guidance in TRO Title 12
- 4) Updating the employee onboarding attestations in the “Receipt of Policies and Information” document to accurately reflect ethics information provided, including whether the Ethics Handbook should be updated and provided to employees.

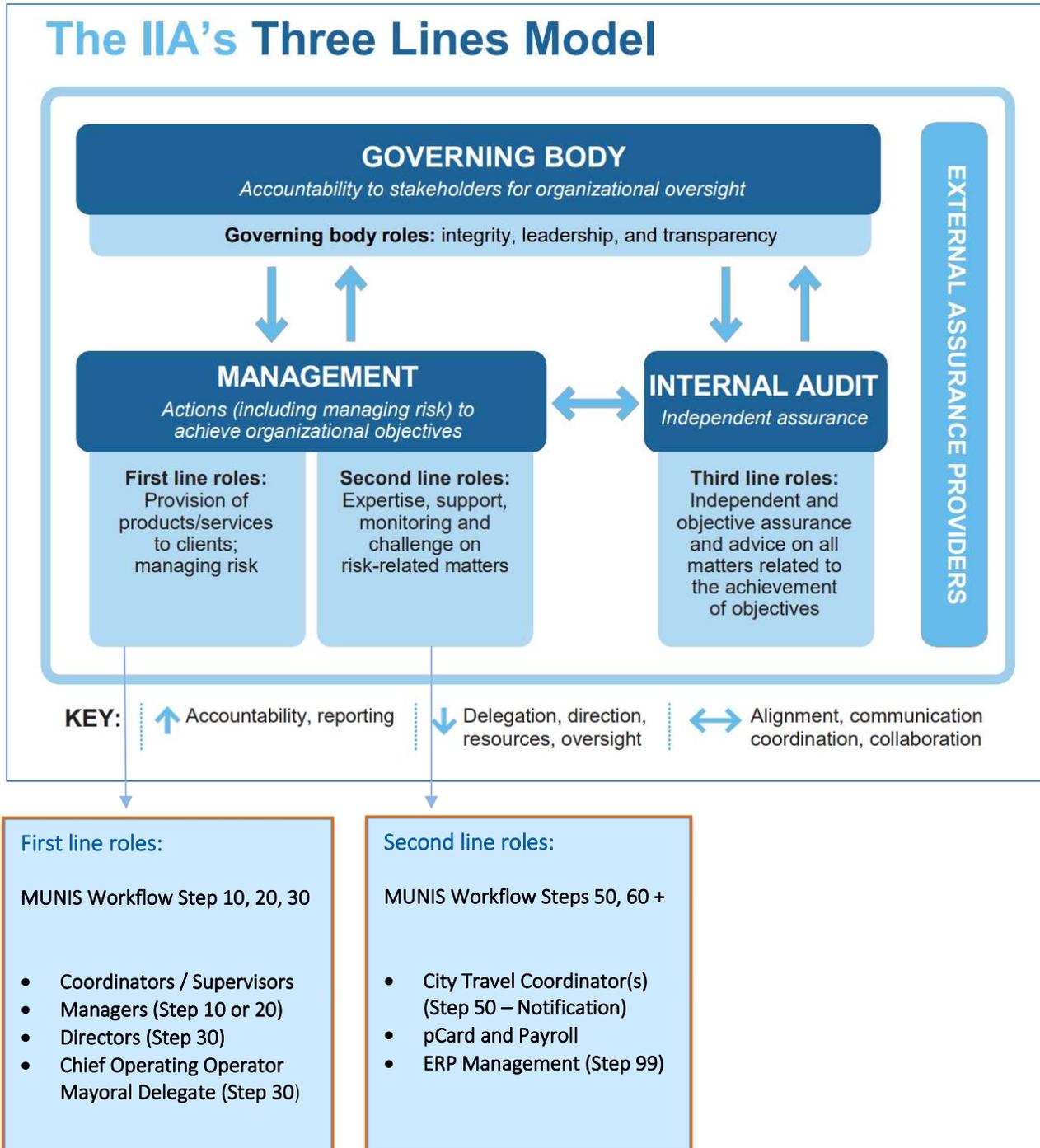
Response:

Management accepts the recommendation and will begin action planning with a follow-up date in the near future to discussion to outline the process.

We thank management and all the employees who contributed to this Sensitive Payments Review. We appreciate the care and cooperation provided to our Team, particularly during this historic time.

APPENDIX A

ILLUSTRATION OF THE INSTITUTE OF INTERNAL AUDITORS “THREE LINES OF DEFENSE MODEL” AND MUNIS SELF-SERVICE WORKFLOW



First line roles:

MUNIS Workflow Step 10, 20, 30

- Coordinators / Supervisors
- Managers (Step 10 or 20)
- Directors (Step 30)
- Chief Operating Operator Mayoral Delegate (Step 30)

Second line roles:

MUNIS Workflow Steps 50, 60 +

- City Travel Coordinator(s) (Step 50 – Notification)
- pCard and Payroll
- ERP Management (Step 99)

APPENDIX B

PROPOSED TRAVEL REFERENCE REVISIONS

Reference:	Currently States:	Consider Revising to:
Executive Order 2018-06	<p>“...department head shall be submitted for approval to the Mayor’s Chief of Staff.”</p> <p>“...require utilization of the City of Tulsa’s travel agent.”</p>	<p>Update to “Mayor’s designated department head reporting relationships” or similar wording</p> <p>Remove travel agent requirement wording.</p> <p>Complete. New Executive Order 2021-05 established August 18, 2021.</p>
TRO Title 25 Section 301 C.3	“The mileage guide is on file in the Accounts Payable Section of the City Finance Department...”	Update to Finance Department and remove outdated Accounts Payable reference.
TRO Title 25 Section 301 C.5	“in accordance with Accounts Payable Policies and Procedures.”	Update to “Finance Travel Policies & Procedures,” which need to be created and centralized.
TRO Title 25 Section 301 C.6	” ...a travel advance shall be presented to the Mayor for issuance of a check.”	Incorporate workflow and payroll deposit information to reflect current practices.
TRO Title 25 Section 301 C.7	“Shall be filed with the Accounts Payable Section of the Finance Department.”	Update to “Finance Department”
TRO Title 25 Section 301 C.8	“Travel policies.... will be established and maintained by the Mayor and kept on file in the Accounts Payable Section of the Finance Department.”	Update to “Finance Department” current placement.
MUNIS Resource Tab – 2021 Per Diem Information	404 Error	Per Diem Resource Chart or move to GSA Model Update: 2021 Per Dlem chart added to resource tab.
Doc Library	A/P Travel Justification Form	Consider archiving – not used
Doc Library	A/P Procedures for Payment – Travel Rules (2008)	Consider archiving - obsolete
Doc Library	Travel Authorization / Advance Expense Voucher	Consider archiving – obsolete

Reference:	Currently States:	Consider Revising to:
<p>pCard Policy Section 500.I and Section 500.I2</p> <p>Also related revisions in: Section 900 (bold yellow Note) and Section 2000</p>	<p>“After a Travel Authorization... has been approved by the Mayor.”</p> <p>“Refer to the Travel Section located within the Accounts Payable Policies and Procedures on the City’s Intranet.”</p>	<p>Update with MUNIS SelfService travel claim language (e.g. after the travel claim has been approved in the workflow).</p> <p>Update to reflect policies within the “Finance Department” (centralized location).</p>
<p>MUNIS SelfService employee agreement to terms on the submit claim page</p>	<p>“You must submit a Travel Expense Voucher...”</p>	<p>Update wording for SelfService claim process.</p>