



Sensitive Payments

As of June 30, 2009

City of Tulsa Internal Auditing
December 2010



Sensitive Payments

As of June 30, 2009

City of Tulsa Internal Auditing

A handwritten signature in black ink, appearing to read 'Ron Maxwell'.

Ron Maxwell, CIA, CFE
Chief Internal Auditor

A handwritten signature in black ink, appearing to read 'Preston L. Doerflinger'.

Preston L. Doerflinger
City Auditor

AUDIT TEAM:

Cecilia Ackley, CPA, Internal Audit Manager

Kelly Brader, Senior Auditor

Tina McIntosh, Staff Auditor

INTRODUCTION

Sensitive payments are transactions with a possibility for officials, top management, and certain employees to receive inappropriate benefit due to their position of influence. Internal Auditing performs an annual review of sensitive payments, as recommended by the United States Government Accountability Office (GAO). The GAO defines the following sensitive payments categories:

- Executive compensation
- Travel
- Official entertainment funds
- Unvouchered expenditures
- Contracting and consulting services
- Speaking honoraria and gifts
- Executive perquisites

It is important for organizations to effectively communicate criteria to enable officials and employees to determine appropriate expenditures. Well-developed policies and procedures can provide guidelines on proper action to be taken. Approval and proper documentation of transactions also help prevent inappropriate expenditures. A strong system of internal control should be established to ensure compliance with established rules.

Because government executives are vested with the public trust and hold a high degree of decision-making authority, they are subject to the scrutiny and criticism of the public and media. Such scrutiny is particularly intense in the event of any impropriety or conflict of interest, whether real or perceived. Although dollar amounts involved would not usually have a material effect on financial statements, improper payments may result in significant criticism of the executives and the governmental entity. Disclosure forms provide an important control in reviewing the propriety of sensitive payments.

The public is very sensitive to undue benefits obtained by government employees and any indications of irregularities and waste in spending. Therefore, a review of sensitive payments must go beyond the validity and adequacy of documentation to consider public interest and reaction to public expenditures.

DESCRIPTION OF AUDIT PROJECT

SCOPE

This project included a review of transactions related to executive operations in the areas of compensation, travel, official entertainment, unvouchered expenditures, contracting and consulting services, speaking honoraria and gifts, and executive perquisites. Ethics and conflicts of interest were also considered for expenditures made in each of the tested areas during fiscal year 2009. Applicable laws, policies and procedures were identified, and an evaluation was made of the related internal control structure.

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
- Evaluate corrective action taken on prior year sensitive payments findings

CONCLUSIONS

Based on the results of these procedures, it is the overall opinion of Internal Auditing that the system of internal control over sensitive payment is adequate.

AUDIT METHODOLOGY

The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, and followed the guidelines published by the United States Government Accountability Office for review of sensitive payments. Audit tests were performed as follows:

- ***Executive Compensation*** - A sample of employees was selected to test compensation. Payroll records were examined to confirm the compensation calculation. Executive pay was compared to pay grade limits and reviewed for any bonus or award payments.
- ***Travel*** - A sample of travel records for trips taken by elected officials, employees and board members was selected for testing. Tests were made to determine whether travel costs were proper and in compliance with ordinances, policies and procedures.
- ***Official Entertainment Funds*** - A sample of transactions was tested to determine compliance with entertainment policies and procedures. Documentation for each item was examined for proper authorization and approval, accurate calculation, and reasonableness.

- **Unvouchered Expenditures** - These funds exist in some governmental entities to be used at the discretion of governmental officials to further the entity's mission, but do not require the same level of documentation as a typical transaction.
- **Contract and Consulting Services** - Policies and procedures for controlling conflicts of interest in contracts were identified and evaluated. Disclosures were reviewed for potential conflicts of interest in contracting and other areas. Public-private partnerships were reviewed for propriety and compliance with City policy.
- **Speaking Honoraria and Gifts** - The adequacy of policies and procedures related to speaking honoraria and gifts was evaluated. Each disclosure of speaking honoraria or gifts was considered for potential conflict of interest.
- **Executive Perquisites** - An evaluation was made of whether City executives receive perquisites and of related policies and procedures. Accounting records were reviewed to determine whether any club memberships had been paid. Controls related to employee parking were reviewed and evaluated.
- **Ethics and Conflicts of Interest** - Policies and procedures were reviewed to determine how ethics and conflicts of interest were addressed and whether prescriptions exist for resolution of conflicts of interest.
- **Related Parties** - Related parties were identified from disclosures and transactions were evaluated to determine whether they were at arm's length.
- **Follow-up Review** – Recommendations from previous Sensitive Payments Reviews were evaluated to determine whether corrective action was completed and effective.

All sensitive payment areas were evaluated and tested. Additional procedures involving the selection of a limited sample of transactions for testing were performed. Opportunities for improvement in internal controls are noted in the next section of this report.

IMPROVEMENT OPPORTUNITIES

IMPROVEMENT OPPORTUNITY I

STIPEND PAYMENTS ARE NOT ADDRESSED IN PERSONNEL POLICIES AND PROCEDURES

SUMMARY

Personnel Policy and Procedures, Section 200, defines employee pay rates, schedules, classifications, and overtime compensation for all sworn and non-sworn employees. In January 2009, eight managers were paid a one time, lump sum stipend of \$2500 each for their participation on a High Performance Government (HPG) team. Personnel Policies do not provide for monetary awards or stipend payments to non-union employees.

There is an HPG Employee Suggestion Program on the Intranet that allows City employees to research best practices on City time, offer suggestions for actual savings or revenue and qualify for monetary awards if the suggestions are adopted. There is no documented evidence that these HPG guidelines are part of policy. The eight stipend payments were awarded without documentation of actual savings or revenue, or adoption of suggestions. The amounts awarded to these eight managers exceeded the suggested HPG guidelines.

If monetary awards are provided and do not follow guidelines established for all employees, the appearance of improprieties or preferential treatment can be created.

RECOMMENDATION

If monetary awards or stipend payments to non-union employees continue to be given, the HPG Employee Suggestion Program or other policy that addresses monetary awards and stipend payments for non-union employees should be formally adopted in the Personnel Policies and Procedures.

RESPONSE

I agree with the finding. The High Performance Government team members continue to meet and work on lean office projects and employee suggestions. It is my understanding the initial stipend to the eight members was considered a one time stipend and covered additional training and time involved in the program. It is unknown at this time if additional stipends are contemplated by the Administration. It is agreed that any additional stipend should only be provided in accordance with an approved Personnel Policy that clearly outlines the criteria for award.

The Employee Suggestion program within HPG is ongoing. The HPG Team reviews these suggestions regularly. There is currently one suggestion that might result in savings to the City. I will alert the HPG Team that creation of a Personnel Policy that requires documentation of actual savings or new revenue be in place prior to any award.

IMPROVEMENT OPPORTUNITY II
EMPLOYEES ARE IN VIOLATION OF PARKING POLICY

Internal Auditing first reported the following in June 2008

SUMMARY

The policy and procedure, titled City Hall Employee Parking published on the intranet, details the amounts the City will subsidize for the various parking lots available to City employees assigned to work in One Technology Center (OTC). The standards of the policy apply to all employees and allow for no exceptions. As of January 2009, 51 OTC employees and elected officials were receiving 100% City subsidized parking benefits at the OTC garage at a cost of approximately \$2,295 per month or \$27,540 per year. The policy does not provide for 100% City subsidized parking benefits in the OTC garage.

RECOMMENDATION

If 100% City subsidized parking is a perquisite for certain positions, the parking policy should specify the positions eligible for the perquisite and approval requirements. If 100% City subsidized parking is for a job based need, parking policy should define criteria for eligible positions and approval requirements.

RESPONSE

I agree with the finding. Policy will be established that addresses parking for the 51 OTC employees and elected officials receiving 100 % City subsidized parking benefits at the OTC garage. The Policy will specify the positions eligible for the perquisite and approval requirements. The Policy will be in place by February 1, 2011.

IMPROVEMENT OPPORTUNITY III

CITY EMPLOYEES WORKING AT DOWNTOWN LOCATIONS OTHER THAN CITY HALL ARE NOT COVERED BY PARKING POLICY

Internal Auditing first reported the following in June 2008

SUMMARY

On April 18, 2008, the Communications Department notified all employees that a new parking policy would be effective July 18, 2008, for all individuals that would be assigned to work at OTC. This announcement was approved by the Information Technology Director. This policy does not address parking policy for individuals who work at other locations in the downtown area.

A number of City employees work at other downtown locations such as Municipal Courts and Performing Arts Center. The City and public trusts subsidize differing portions of employee parking expense in these locations. At the Performing Arts Center, the Performing Arts Center Trust subsidizes 100% of the employees' parking expense. There is no policy addressing who receives subsidized parking benefits and at what level for employees who work at downtown locations other than OTC.

Internal Auditing was unable to locate an executive order or other documentation adopting the OTC parking policy into the City's Personnel Policies and Procedures.

RECOMMENDATION

The City should develop written policy and procedures for all City facilities that covers parking subsidies and the percentage, if any, that is paid.

RESPONSE

I agree with the finding. A written policy will be established that addresses all other locations where a City subsidy is provided. The Policy will specify the positions eligible for the perquisite and approval requirements. The Policy will be in place by February 1, 2011.

IMPROVEMENT OPPORTUNITY IV

FOOD AND BEVERAGE PURCHASES WERE MADE WITHOUT SUFFICIENT DOCUMENTATION, PROPER AUTHORIZATION, OR WERE NOT FOR A PROPER BUSINESS PURPOSE

Internal Auditing first reported the following in June 2008

SUMMARY

Executive Order 2001-01 created documentation requirements for food purchases not related to travel. Accounts Payable Policies and Procedures and Purchasing Card (P-Card) Policies and Procedures also include requirements for entertainment expenditures. These requirements are in place due to the sensitive nature of using taxpayer money for food and beverage expenses. Twelve transactions were tested. The following exceptions were noted:

- 3 food and beverage purchases were not properly authorized by the Mayor
- 1 invoice was not calculated correctly resulting in an overpayment of \$10.00

During the audit we became aware of possible misuse of a P-Card by a senior manager and his executive assistants. All food and beverage purchases on the senior manager and his executive assistants' P-Cards were tested. Twenty three additional transactions were tested. The following exceptions were noted:

- 13 purchases were not for a proper business purpose
- 4 invoices did not include the business purpose of the food purchases
- 2 invoices were incorrectly calculated
- 3 invoices could not be recalculated to determine accuracy
- 13 transactions had inadequate documentation
- 2 purchases exceeded food and beverage expense limit with no Mayor approval
- 15 inappropriate food purchases that the senior manager directed his executive assistants to make for his use. He then approved their P-Card log for payment.
- 5 inappropriate food purchases made by the senior manager who then had his subordinate approve his P-Card log for payment.

The Purchasing Manager met with the individual to review management override of P-Card policy for food purchases and requested reimbursement of charges. The individual agreed to settle the issue prior to leaving City employment but failed to do so.

RECOMMENDATION

Food purchase errors and irregularities are repeat comments in Sensitive Payments Reviews. The Finance Department and the Purchasing Department should provide training and periodic reminders on food purchase policy and procedures for City employees and strictly enforce policies to ensure compliance with Executive Order 2001-01. Management should empower employees to report issues or irregularities and if necessary take issues to senior management for resolution. Management should consider developing a procedure to document employee receivables for inappropriate purchases that require reimbursement to the City to ensure repayment is received.

RESPONSE

We concur with the findings.

While Finance agrees with the value of periodic training and reminders on the food purchase policy and procedures, we believe that these policy violations occurred not because employees lacked training. We believe this finding identifies an ethical breakdown and need to be addressed as such and attended to accordingly as no amount of additional training or procedures will prevent ethical breakdowns. We believe any amount of additional training to the general employee population would not have prevented this finding. Individuals who have an interest in processing transactions correctly are usually the ones who choose to attend training classes. Conversely, individuals who may see circumvention of policy as a means to an end are not the type of employee who usually attends a training class.

We agree with the recommendation to develop a procedure to document employee receivables for inappropriate purchases that require reimbursement to the City to ensure repayment is received. To be effective, these procedures need to identify who is responsible for enforcing collection actions the procedures should assure such issues are included as part of the employee's performance evaluation. The procedures should also identify in advance the actions management would take in the event of nonpayment either as an active employee or a terminated employee, as the case may be. The procedures should further identify at what stage further action to pursue repayments should be abandoned.

Finance/Accounting, through the accounts payable actions, reports irregularities on p-card use to the p-card administrator for further review and action.

We concur that employees should be empowered, and we believe are empowered, to take issues to senior management for resolution, if necessary. However, as an organization, we cannot reasonably expect employees to do so when senior management is complicit, as identified in this finding.

IMPROVEMENT OPPORTUNITY V

CITY LACKS WRITTEN POLICY FOR EMPLOYEE ENTERTAINMENT AND PROMOTIONAL EXPENSES NOT RELATED TO TRAVEL

SUMMARY

Executive Order 2001-01, Accounts Payable Policies and Procedures, and Purchasing Card Policies and Procedures provide guidelines for food purchases not related to travel. Charges for T-shirts for two different small groups of City employees working on special projects, music for the City Employee Holiday Party, and other miscellaneous entertainment and promotional expenses were charged to the general ledger account for food and beverages not related to travel. There is no evidence of a policy that provides clear, concise guidelines for entertainment or promotional expenses not related to travel. These expenses could be subject to more intense scrutiny and criticism by the public and media in the event of any impropriety or conflict of interest, whether real or perceived. Although dollar amounts involved would not usually have a material effect on financial statements, improper payments may result in significant criticism of the executives and the governmental entity. The public is very sensitive to undue benefits obtained by government employees and any indications of irregularities and waste in spending.

RECOMMENDATION

Management should consider drafting policy and procedures for entertainment and promotional expenses not related to travel to prevent public perception of impropriety.

RESPONSE

I agree with the finding. Executive Order 2001-01 clearly establishes policy regarding ordinary and necessary food expenses and refreshments not related to travel. The items listed in the narrative such as T-shirts and music fall outside of the scope of the Executive Order.

A policy will be established that addresses non food items that might be used for business related purposes. This policy will define purpose, dollar amounts guidelines and approval processes. The Policy will be in place by April 1, 2011.

IMPROVEMENT OPPORTUNITY VI

EMPLOYEES ARE NOT CONSISTENTLY COMPLYING WITH TRAVEL RULES

SUMMARY

Improper completion of travel documentation has been a finding every year in the Sensitive Payments Review. Two of the six travel transactions tested were completed according to the City's Travel Policy and Procedures. The following exceptions were noted on the four remaining transactions:

- 2 Occurrences – Final Travel Vouchers were not properly approved
- 3 Occurrences –Final Travel Vouchers were not completed within 10 days after travel ended
- 1 Occurrence – Adequate documentation was not provided with travel voucher.

Noncompliance with the policies increases the risk of improper payments.

RECOMMENDATION

Lack of compliance with travel policies has been a perpetual finding in the Sensitive Payments Review. Management should consider revising travel policy and procedures to allow successful compliance. For example, time requirements for submission of the final voucher may need to be extended since they are frequently missed.

RESPONSE:

Management agrees that tardy submission of final travel expense reports is a recurring problem. The majority of employees who travel submit their final travel voucher within the ten-day submission period. Those employees who are not timely submitting a final travel voucher often are not adequately incentivized to do so. Often the employee has received money in advance of the trip to lessen the financial impact to the employee of the cost of travel. To obtain maximum compliance policies should provide increased incentive for compliance. Management should evaluate further the perceived need to advance money to employees prior to traveling given the general belief that most employees use personal credit cards to pay out of pocket costs during the travel period.

While Accounting does not disagree that time requirements for submission of the final voucher may need to be addressed, extending the deadline may not resolve the tardiness issue.

Reasonable actions are being taken by staff to assist employees in meeting the deadline for submission of final travel vouchers. Finance, beginning October 2009, implemented a tickler log to flag the submission deadline. Travelers and their supervisors are contacted by email when the final voucher is late. The notification is attached to the late voucher for documentation. The tardiness issue is most prevalent in the Police Department. Consideration is being given to contacting travelers prior to when the final voucher is tardy to assist in compliance and establishing an escalation of issue notification will also be evaluated.

IMPROVEMENT OPPORTUNITY VII

A CITY POLICY FOR PERSONAL PHONE CALLS CONFLICTS WITH ORDINANCE AND DEPARTMENTAL POLICY

Internal Auditing first reported the following in June 2007

SUMMARY

City of Tulsa's Personnel Policies and Procedures state, "While an employee is on City travel, business long distance telephone charges and limited personal calls (2 calls per day of 15 minutes or less) may be reimbursed in accordance with current Accounts Payable Policies and Procedures."

Tulsa Revised Ordinance Number 20892 states, "Only business telephone charges will be reimbursed."

Accounts Payable's Policies and Procedures dated May 31, 2005, direct that personal calls are not reimbursable travel expenses.

Instructions for travel expense reimbursement in Accounts Payable's Policies and Procedures effective July 1, 2006, state that personal calls and internet use are not to be reimbursed.

The financial impact is negligible, but employees could be confused by conflicting policies. Conflicting policies decrease the ability of employees to comply with policy.

RECOMMENDATION

Management should update Personnel Policies and Procedures to conform to authoritative guidelines and be consistent with departmental policies.

RESPONSE

I agree with the finding. The City's Personnel Policies and Procedures will be revised to be consistent with Tulsa Revised Ordinance number 20892 and Account Payables' Policies and Procedures date May 31, 2005. The Policy will be revised by December 1, 2010.

IMPROVEMENT OPPORTUNITY VIII

POLICIES AND PROCEDURES DO NOT ADDRESS SOME ISSUES RELATED TO ETHICS AND CONFLICT OF INTEREST

Internal Auditing first reported the following in June 1990

SUMMARY

The Personnel Policies and Procedures Manual include rules on second employment in jobs other than the employee's City job. However, policies do not require specific approval for outside employment that may:

- Result in a conflict of interest
- Tend to impair the employee's mental or physical capability to perform City duties
- Be construed by the public to be official acts of the City
- Involve the use of information gained through City duties and used to the detriment of the City or public interest.

RECOMMENDATION

Management should add the above listed items to the policy on second employment.

RESPONSE

I agree with the finding. The Personnel Policies and Procedures will be revised to include specific approval for outside employment that may:

- Result in a conflict of interest;
- Tend to impair the employee's mental or physical capability to perform City duties;
- Be construed by the public to be official acts of the City;
- Involve the use of information gained through City duties and used to the detriment of the City or public interest.

The Policy revision will be in place by December 1, 2010.

IMPROVEMENT OPPORTUNITY IX

POLICIES AND PROCEDURES DO NOT INCLUDE GUIDELINES ON GIVING OF GIFTS

Internal Auditing first reported the following in June 1990

SUMMARY

The policy in the Personnel Policies and Procedures Manual (section 226) on Gifts, Donations, Honoraria and Other Compensation was revised January 1, 1999. The revisions improved the policies regarding receiving of gifts but the revisions did not address giving of gifts on the City's behalf.

Internal Auditing noted in the previous year's Sensitive Payments Review that \$89.95 was spent on gift cards that were provided as employee of the month incentives. There are no policies to use as criteria to determine if this is a proper expenditure.

RECOMMENDATION

A policy on giving of gifts on the City's behalf should be implemented. Specific guidelines are necessary so employees spend the City's money responsibly and without the perception of impropriety.

RESPONSE

I agree with the finding. A policy will be developed that addresses both this finding and that in number 5 above. The two findings have in common that they address areas of management where recognition, awards and reward for service, above and beyond normal compensation, are being provided without adequate criteria in policy. The Policy will be in place by April 1, 2011.

REPORT DISTRIBUTION

Mayor	Gilcrease Museum Director
Councilor, District 1	Grants Administration
Councilor, District 2	Human Rights Director
Councilor, District 3	Manager of Administration-Community Development and Education Initiatives
Councilor, District 4	Manager – IT Administration and Planning
Councilor, District 5	Mayor's Action Center
Councilor, District 6	Mayor's Chief of Staff
Councilor, District 7	Municipal Court Administrator
Councilor, District 8	Park & Recreation Director
Councilor, District 9	Performing Arts Center Director
City Auditor	Personnel Director
Budget & Capital Planning Division Manager	Police Chief
Chief Risk Officer	Press Secretary
Chief Technology Officer	Public Facilities, Deputy Director
City Attorney	Public Works, Assistant Director
Communications	Purchasing Division Manager
Controller	Real Estate Management Director
Council Administrator	Senior Administrative Services Officer
Council Secretary	Treasury Division Manager
Development Services Director	Park and Recreation Board Chair
Director of Administration	Airport Authority Chair
Director of Community Development	Civil Service Commission Chair
Director of Economic Development	EMSA Chair
Director of Intergovernmental & Enterprise Development	Metropolitan Tulsa Transit Authority Chair
Director – IT Administration and Planning	Sales Tax Overview Committee Chair
Director Operations - Information Technology	TARE Chair
Director of Operations – Public Works	TDA Chair
Director of the Office of Sustainability	TPFA Chair
Director of Public Facilities & Transportation	TMUA Chair
Engineering Services, Deputy Director	TPA Chair
Environmental Operations, Deputy Director	External Auditor
Equipment Management Director	Mayor's Audit Committee
Finance Director	Ethics Advisory Committee
Fire Chief	