



**Compliance Audit 2017-01  
City-wide Travel and Training**

**January 2017**

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**OUR MISSION**

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

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## **EXECUTIVE SUMMARY**

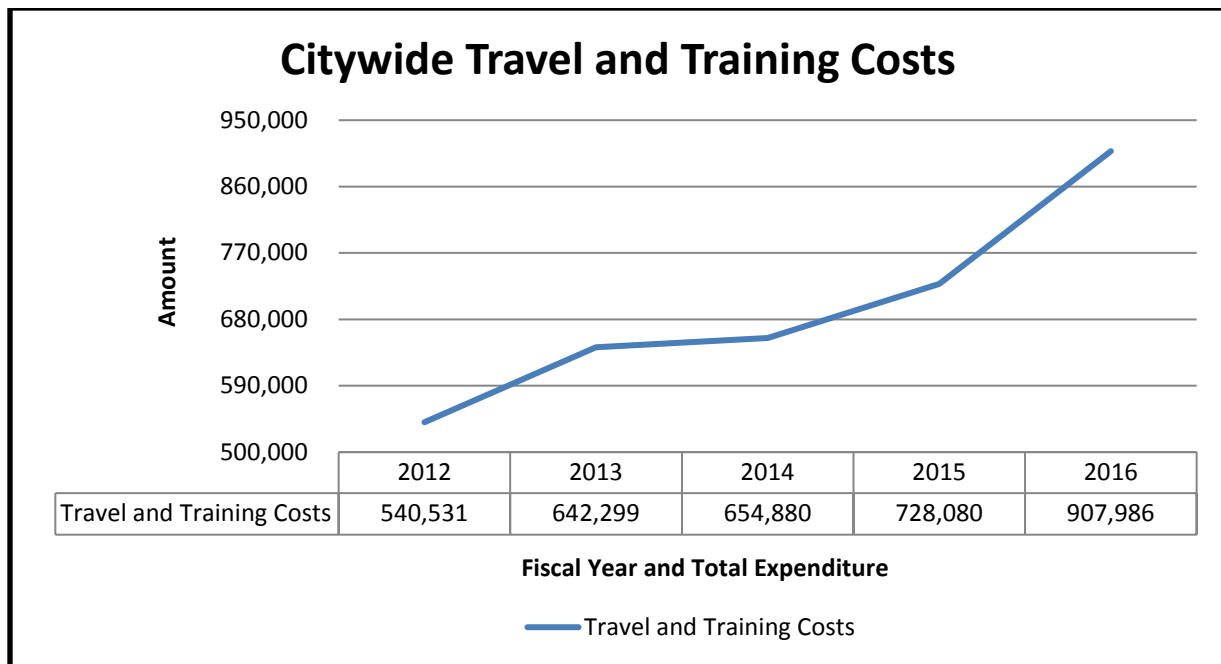
In accordance with the Fiscal Year 2016-2017 Audit Plan, the Office of Internal Audit assessed compliance with relevant policies, procedures, laws, rules and regulations; and whether resources were used in the most cost-effective manner for travel and training expenditures. In order to meet the objectives, Internal Audit examined accounting documents; interviewed personnel; and tested records.

This report addresses a number of areas where management actions could further reduce the risks associated with travel and training expenditures. Those areas are discussed below:

1. Travel and training expenditures were not always in compliance with applicable policies.
2. Resources were not always used in the most cost-effective manner.
3. Sales tax was not always recorded correctly.

## **BACKGROUND**

It is the City of Fayetteville's policy to pay directly or to reimburse employees for reasonable expenditures incurred when traveling for official City business which can include meetings, conferences, workshops, seminars, etc. The travel may be local, in-state, out-of-state, or foreign and could also be daily or overnight trips. *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* as revised effective July 3, 2008 defines the City's travel policy. The Finance Department is responsible for the management and oversight of this policy. Department heads are responsible for managing, approving, and reviewing budget appropriations and expenditures to support travel activities for their respective departments. For the fiscal year ended June 30, 2016, the City incurred \$ 907,986 of training and related travel expenditures. These expenditures also included City capital and grant funded training and related travel expenditures. The following chart documents total travel and training expenditures incurred by the City of Fayetteville since fiscal year 2012:



Source: JD Edwards Financial System

Below is a table showing travel and training expenditures by department for FY 2016:

**Travel and Training Expenditures FY 2016**

<b>Department</b>	<b>Amount</b>
Airport	\$32,425
Budget and Evaluation	12,684
Cemeteries	175
City Attorney	4,388
Community Development	2,806
Community Development grant funded	1,934
Corporate Communications	15,959
E-911	28,855
Economic and Business Development	20,480
Economic and Business Development grant funded	391
Engineering	26,205
Environmental Service	4,740
Executive	58,859
Finance	20,468
Fire	58,669
Human Relations	2,516
Human Resources	7,071
Information Technology	96,180
Information Technology - enterprise wide GIS capital project	24,000
Information Technology - KRONOS capital project	15,225
Legislative	29,032
Parks and Recreation	56,275
Permitting & Inspections	39,583
Planning & Code Enforcement	2,429
Planning and Development	12,041
Police	245,178
Police - 800Mhz radio capital project	4,102
Police grant funded	6,424
Public buildings	655
Real Estate	2,152
Risk Management	3,699
Storm Water Management	7,490
Street Maintenance	13,752
Transit grant funded	42,126
Transit operating	8,968
Urban Forestry	50
<b>Total</b>	<b>\$907,986</b>

Source: JD Edwards Financial System

## ***AUDIT OBJECTIVES***

The objectives of this audit were to ensure expenditures were in compliance with relevant policies, procedures, laws, rules and regulations; and departments managed and used resources in a cost-effective manner.

## ***AUDIT SCOPE***

The scope of the audit included all travel and training related expenditures incurred from July 1, 2015 to June 30, 2016.

## ***AUDIT METHODOLOGY***

In order to meet the objectives, Internal Audit examined accounting documents; interviewed personnel; and tested records. In addition, Internal Audit:

- Obtained and reviewed *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures*; *State of North Carolina Office of State Budget and Management Budget Manual*; the U.S. Department of Transportation Federal Transit Administration Circular *FTA C 9030.1E* and the *2015 DOJ Grant Financial Guide*;
- Obtained and reviewed travel and training expenditures from the general ledger for fiscal year 2016 to date;
- Selected a sample of expenditures and performed the following tests:
  - Verified the accuracy of travel advance/reimbursement calculations,
  - Verified the adequacy of the supporting documentation,
  - Verified proper approval of travel expenditures were present,
  - Reviewed the transactions for unusual activity to identify fraud, waste and abuse (e.g., were employees staying beyond the conference time, were there unsupported reimbursement claims, was there travel which appeared personal in nature); and
- Interviewed employees in charge of processing travel expenditures.

An analysis of travel expenditures for July 1, 2015 through June 30, 2016 was performed. Five departments were judgmentally selected (Police, Information Technology, Community Development, Transit, and Economic and Business Development) by evaluating the largest dollar amount of travel expenditures, the largest dollar amount of travel expenditures per employee, and department size to improve the overall efficiency of the audit and ensure the sample was reflective of the total population. The City Manager's Office was judgmentally selected as a sixth department to include the Office of Internal Audit's transactions in the sample to increase accountability and transparency. The sample size for each department was selected by starting with the first batch and selecting every other tenth batch to generate a ten percent sample. During the audit, due to possible fraud, waste and abuse, an additional ten percent sample was selected for one of the six selected departments.

## ***FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES***

### **Finding 1**

***Travel and training expenditures were not always in compliance with applicable policies.***

A strong system of internal control requires policies and procedures written by management to ensure proper controls, safeguards and segregation of duties are in place. The development and use of policies and procedures are an integral part of a successful quality system as it provides personnel with the information and guidance to perform a job properly.

Internal Audit reviewed applicable federal, state and local policies, procedures, laws, rules and regulations relevant to the payment of travel expenditures to ensure compliance. This included: the *City of Fayetteville*

*Policy # 307 Employee Development, Training, and Travel Expenditures, State of North Carolina Office of State Budget and Management Budget Manual, the U.S. Department of Transportation Federal Transit Administration Circular FTA C 9030.1E and the 2015 DOJ Grant Financial Guide. Upon review of these guidelines and the sampled travel expenditures, the following observations were made:*

1. ***Reimbursement was made for meals served and included in registration cost.*** *City of Fayetteville Policy #307 Employee Development, Training, and Travel Expenditures* stated, reimbursement will not be made for any meal served where the cost was included in the registration fee, and the appropriate deduction from the Meals & Incidentals rate must be made. However, Internal Audit noted 25 instances within the Information Technology Department sample in which meals included in the registration cost were also paid to employees as a per diem meal allowance. Reimbursement of \$291 was requested from the respective employees.
2. ***Supervisory review and approval was not always documented.*** Requiring prior approval is an important step to ensure City and departmental policies and procedures are being followed, and help department directors manage travel budgets. In addition, when granting agencies require prior approvals for expenditures, noncompliance could place the City's grant funding at risk in full or at a minimum reimbursement for noncompliant expenditures. Internal Audit noted instances within the sample of all audited departments in which no documentation of prior approval was attached for the travel expenditure. Based on an Internal Audit inquiry, departments considered the travel advance request approval for the trip. However, all travel expenditures did not include a travel advance request.

Travel and training expenditures in which state grant funds were requested, the Transit Department could not provide prior written approval. However, the *State of North Carolina Office of State Budget and Management Budget Manual* required prior written approval by department head or his or her designee to reimburse for overnight lodging and meals.

*City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, "Car rentals, when pre-authorized and necessary, must be arranged by the individual traveler. Car rental charge receipts must be turned in with the employee expense statement to receive reimbursement. Car rental charges, not pre-approved, will require clear justification and approval by the Department Head." However, Internal Audit noted rental car payments within the Information Technology Department sample in which the department could not provide documentation showing prior authorization.

In addition, *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, "Advanced authorization for local mileage reimbursement is required by the Department Head or authorized designee." However, an instance was noted within the Economic and Business Development Department sample in which local mileage reimbursement was requested, but the department could not provide written prior authorization. Based on an Internal Audit inquiry, the department was unaware that prior authorization was needed.

3. ***Mileage was calculated and paid from and/or to home versus the workplace.*** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, "Mileage reimbursement requests should be based on using mileage obtained from a navigation website (i.e., Mapquest.com) or actual odometer readings. Mileage using a personal vehicle shall always be calculated from the workplace. If the Traveler leaves directly from or drives directly back to home, normal commuting miles to the Traveler's workplace must be subtracted from the total trip mileage in calculating the reimbursement due." In addition, the *State of North Carolina Office of State Budget and Management Budget Manual* stated, "Actual mileage is reimbursable. Mileage is measured from the closer of duty station or point of departure to destination (and return)." However, Internal Audit noted three mileage reimbursements within the Transit Department and Information Technology Departments' samples calculated to and/or from the traveler's home. One of the three was determined to be closer when calculated from home and reimbursement was not

required. The remaining two were determined to be closer from the workplace. However, when calculated, the difference from the workplace was only \$1.20 for one reimbursement and \$0.86 for the other. Although minimal amounts were determined, reimbursements were requested from the employees.

4. ***Documentation of final expense reports was inadequate.*** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, “Employee's Expense Statements should be filled out and submitted within a reasonable time, generally not to exceed two weeks or ten business days. This is especially important when travel advances have been made to the traveler. If circumstances prevent completing the expense statement within a reasonable time the traveler may be required to return the advance in full and later request reimbursement by submitting the expense statement. Advances not returned to employer within a reasonable time after returning are subject to payroll deduction.” In addition, the policy required all individuals authorized or designated to approve travel requests should ensure the traveler understands the policy before the travel request is approved to include ensuring a final accounting of all trip expenditures is submitted to the Finance Department. However, employee expense statements reflecting the final accounting of the travel and training were not always noted for all departments sampled. Based on an Internal Audit inquiry, the departments indicated final expense reports were turned into the Finance Department.

Internal Audit requested 29 final expense reports, however, the Finance Department was only able to provide 21 final expense reports. Based on an Internal Audit inquiry, the final expense reports were filed behind the “original” check and were not affixed to the check. In addition, Finance Department personnel did not scan the final expense reports into Laserfiche (a document management portal used by the City). In reviewing the final expense reports provided, Internal Audit noted only two of the 21 final expense reports included all the expenditures for the trip. The remaining 19 final expense reports were missing expenditures which included: registration fees, lodging amounts, parking, airfare, mileage and meals. City policy required a “final accounting” and “Employee’s Expense Statement” but did not define what these should include.

5. ***Documentation for registration fees was not in compliance with policy.*** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, “Tuition for a class, registration fees for a seminar or conference and other fees that relate to attending the event for the stated purpose are considered registration fees. Registration fees must be substantiated by a complete brochure or agenda for the conference, seminar, class or convention being attended. Such fees will not be paid without the required documentation.” In the sample of all departments, Internal Audit found 36 payments for registration fees for which an agenda was not attached to the payment documentation. The documentation attached to support the payment did appear to substantiate payment of the registration fee. Proof of payment included, invoices, registration confirmation and copies of completed registration forms. In some instances, agendas are not provided for the class or training attended, and therefore, not feasible to require as documentation for registration payment, for example, driver’s safety classes at FTCC.
6. ***Documentation was lacking to substantiate travel related expenditures.*** An agenda is necessary to determine whether meals are provided at the seminar, conference or training attended and should be deducted from any per diem paid. Agendas also help determine the time the event started and ended to determine whether the traveler needed to travel a day before and/or a day after the event. Internal Audit requested 37 agendas from all departments sampled in order to ensure travel related payments were paid correctly. Based on an Internal Audit inquiry, the departments provided 12 agendas and were unable to provide the remaining 25 agendas. Without proper documentation, Internal Audit could not determine if all travel expenditures were calculated and paid correctly.

7. **Reimbursements were made for valet parking.** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, “Valet parking will not be reimbursed by the City of Fayetteville, unless it is the only parking available.” Internal Audit noted three instances within the Information Technology Department sample in which valet parking was not the only parking available but was paid for on a City’s procurement card or reimbursed to the traveler. A difference in the valet parking fee and the self-parking fee of \$6 was requested from the respective employees.
8. **Actual versus per diem** – *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, “If the traveler chooses, the reimbursement for meals and lodging may be based on IRS approved per diems for the destination city. The choice must be for the entire duration of the trip. One may not use per diem for a day or days and actual cost reimbursement for other day(s) of the same trip. It should be noted that under both methods of reimbursement, hotel receipts are required.” There was one instance noted within the Police Department sample in which \$24.72 for food and beverages plus associated sales tax was paid as part of the lodging payment on a City procurement card. However, the traveler was also paid per diem for the entire trip. Based on an Internal Audit inquiry, the department indicated the food and beverage costs were not detected upon traveler’s return, and reimbursement to the City was not requested at the time. However, once Internal Audit notified the department, the employee reimbursed the City \$24.72.

In addition, Internal Audit noted for travel expenditures examined for all the departments sampled, whether meals were reimbursed at actual cost or paid per diem, employees were submitting actual receipts for lodging payments. The typical practice for City travel reimbursement was to allow per diem meals to be paid while allowing actual cost payments for lodging. As part of the City’s travel policy, guidelines were outlined governing reimbursement for meals and lodging. The policy stated that meals and lodging may be reimbursed either on a per diem basis or reimbursement can be made for actual expenses and “the reimbursement for meals and lodging may be based on IRS approved per diems for the destination city”. The City’s travel policy also stated, “When the per diem method is chosen, the Meals & Incidentals rate listed in the Domestic Per Diem rate tables set by the U.S. General Services Administration must be used. These rates are part of the Federal Travel Regulations, and” a web link is included. In addition, Policy 307 incorporated the Domestic Per Diem rate tables set by the U.S. General Services Administration as part of the Federal Travel Regulations. This incorporation by reference in the City’s Administrative Policy can be interpreted to include any and all directives as they pertain to per diem reimbursement for authorized travel for the City of Fayetteville.

9. **Per diem meal allowances were paid without an overnight stay.** *The City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* did not directly address treatment of travel expenditures without an overnight stay. However, the policy incorporated the Domestic Per Diem rate tables set by the U.S. General Services Administration as part of the Federal Travel Regulations. This incorporation by reference in the City’s policy can be interpreted to include all directives as they pertain to per diem reimbursement for authorized travel for the City of Fayetteville. According to the Federal Travel Regulations, travelers are entitled to 75% of the prescribed meals and incidental expenses for one day travel away from their official station if it is longer than 12 hours. Internal Audit noted instances, within the Information Technology Department sample for which two employees were paid per diem, but the travel did not include any overnight lodging nor did the training require the travelers to be away from their official station longer than 12 hours. Reimbursement of \$531 for the per diem meal payments was requested from the respective employees.



10. **Documentation for lodging payments was insufficient.** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, regardless whether the traveler is reimbursed for meals and lodging based on IRS approved per diems for the destination city or reimbursed based on actual expenditures, the hotel receipts are required. In addition, the policy stated, “The Traveler is also responsible for obtaining all required receipts and other documentation while traveling, and submitting them with a final travel expense report within 10 business days of return from a trip.” Furthermore, the hotel receipt should have a zero dollar balance to show the traveler did in fact incur the expenditure, and the bill was paid in full. Internal Audit found five instances within the Police Department and Information Technology Department samples in which only the hotel confirmation was provided. The hotel confirmation only indicates that a room was reserved, and not that the traveler actually incurred the expenditure, or the balance was paid in full. Based on an Internal Audit inquiry, departments provided two of the five missing hotel receipts.

In addition, Internal Audit found one instance within the Transit Department sample in which a hotel receipt was provided, but it showed a balance due. Based on an Internal Audit inquiry, the department could not provide a copy showing a zero dollar balance. However, the balance due as shown on the hotel receipt was charged to a City procurement card.

11. **Mileage was not always calculated using mileage obtained from navigation website or actual odometer readings.** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, “Mileage reimbursement requests should be based on using mileage obtained from a navigation website (i.e., Mapquest.com) or actual odometer readings.” There was one instance noted within the Economic and Business Development Department sample in which a request for local mileage reimbursement was paid without documentation showing the mileage was obtained from a navigation website, and actual odometer readings were not listed on the *Local Travel Expense Report*. However, there was a statement written for the Finance Department attached to the expense report stating the traveler was unaware exact odometer readings were required.

12. **Payments were made for ineligible expenditures -** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, “Non-reimbursable personal expenses include but are not limited to the following: 1. In-room movies and alcoholic beverages. 2. Costs of spouse and or other family members or personal guests. 3. Parking tickets, fines and other penalties.” Internal Audit noted one instance within the Information Technology Department sample in which a toll violation was charged to a City procurement card. Reimbursement for the charge of \$5.20 has been requested from the employee.

In addition, Internal Audit found one instance within the Information Technology Department sample in which an employee was paid eight days of per diem meals and the city incurred lodging costs for seven nights for a five day event. Based on an Internal Audit inquiry, the department indicated the cheapest flight rate was for a Saturday to Saturday trip. However, the department could not provide documentation of other flight rates nor was documentation of any comparison analysis provided assessing cost savings for the City. Reimbursement of \$428.16 for two days per diem meals and two nights lodging was requested from the employee.

Internal Audit also found two instances within the Information Technology Department sample in which employees were overpaid for lodging expenses. In each case, a deposit was made using a City procurement card to secure reservations for an event; and the employees were paid an advance that covered the full amount of the lodging charges resulting in overpayments. Reimbursement of \$216.50 was requested for the overpayment.

Internal Audit also noted one instance within the Information Technology Department sample in which an employee was provided an advance payment for lodging, however, the actual cost of lodging was less than the advance payment provided to the employee. A final itemized hotel bill

was not provided; therefore no final accounting of travel costs could be completed. Based on an Internal Audit inquiry, the itemized hotel receipt was provided. Although a minimal amount of \$1.39 was determined, reimbursement was requested from the employee.

Internal audit noted one instance within the Information Technology Department sample in which an employee incurred \$44 in parking deck costs for a three day training event. Two separate charges were made on a City procurement card, \$17 and \$27 respectively, with overlapping time stamps. Based on an Internal Audit inquiry, the employee could not substantiate the indifference in the parking time stamps on the receipts; therefore, Internal Audit could not validate the parking charges. Reimbursement of \$17 has been requested from the employee.

Internal Audit also found one instance within the Information Technology Department sample in which an employee incurred lodging expenditures for the night the event ended. The event ended at 4:30 pm, but the employee did not travel home until the following day. Additionally restaurant charges were incurred for dinner the day after the event ended. Based on an Internal Audit inquiry, the department indicated the event ran late and an unscheduled tour was conducted after the event. In addition, the employee indicated a redeye flight would not be taken. However, Internal Audit determined the flight was booked prior to the event and before any event delays were known. Reimbursement of \$163.90 for one night lodging and one meal payment has been requested from the employee.

Additionally, Internal Audit noted one instance within the Information Technology Department sample in which an employee requested an advance that included four days of per diem meals, but it appeared the employee only traveled for three days. Reimbursement of \$63 was requested from the employee.

13. ***Mileage was paid on City owned vehicles.*** *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* stated, “If a City owned vehicle is used, the Traveler will be reimbursed only for actual expenses incurred for fuel or repairs as supported by paid bills or receipts.” Internal audit noted two instances within the sample of the City Manager’s Office for which an employee was paid mileage at a reduced rate on the City fleet vehicle assigned to the employee. Mileage should not be requested or paid on City owned vehicles.
14. ***Mileage was paid on rental cars.*** The policy stated, “Private vehicle mileage will be reimbursed at the federal rate.” The policy also indicated rental cars may be used “when they are the most economical or practical form of transportation.” Internal audit noted three instances with three different travelers within the Information Technology Department sample for which the City paid for rental cars and also paid the travelers mileage. Mileage should not be requested or paid on a rental, particularly if the cost of the rental has been paid with City funds. Reimbursement of \$625.48 from the respective employees was requested.

The *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* was last revised on July 3, 2008 and did not provide clear guidance. In addition, it appeared departments did not have complete understanding and/or knowledge of all aspects of the travel policy. Therefore, departments were not ensuring travelers were always in compliance with the travel and training policy.

### **Recommendation**

The Office of Internal Audit recommends management update the *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* to include, but not limited to, providing clear and concise guidance on required documentation for registration fees and per diem payments; actual versus per diem for meals and lodging; payment of travel expenditures for one day travel; and payment of mileage on rental cars. The review process should also be improved to ensure employees are only reimbursed for eligible meals, and ensure the most economical and efficient method of travel was utilized, or documented appropriately. In addition, management should ensure all City personnel who travel for City business have

a complete, clear understanding and knowledge of not only the travel and training policy, but all policies applicable to travel and training expenditures. Management should develop a process to monitor travel expenditures to include prior approvals, advances, after travel reporting and ensure travel expense reconciliations are completed and reviewed.

**Management's Response:**

We concur. Management is in full agreement with the recommendation. The Travel and Training Policy will be updated to address audit recommendations. To ensure that travel expenditures are in compliance with policies Accounts Payable staff will work with Departmental staff as needed. Training on processes and procedures will be offered. Accounts Payable staff will increase efforts to monitor travel documents for compliance.

Responsible Party: Ray Oxendine, Treasurer

Implementation Date: April 1, 2017

**Finding 2**

***Resources were not always used in the most cost-effective manner.***

City employees are stewards of the citizen's resources and as such should always ensure the most cost-effective use of those resources. A policy which provides clear guidance can help ensure the most cost-effective use of resources and deter and/or prevent potential waste and/or abuse. Internal Audit determined clearer guidance should be considered for the following observations:

1. ***Government rates for lodging were not always obtained.*** The policy stated, "When making lodging arrangements, ask for lowest rates available. The City of Fayetteville may qualify for the governmental rate and the corporate rate." There were 32 instances noted for all the departments sampled in which the rate paid was greater than the U.S. General Services Administration (GSA) rate. Based on an Internal Audit inquiry, the departments indicated when the GSA rate was unavailable the departments obtained the best rate offered at the time. Internal Audit calculated a potential savings of \$7,580 if GSA rates had been available and/or were utilized. However, Internal Audit noted nine instances within the Police Department and Transit Department samples in which there was a cost savings to the City for a total of \$792.53. For two of the nine cost saving instances, the savings was due to travelers sharing a room.
2. ***Tip percentages varied.*** The policy stated, "Actual reasonable expenses for meals including usual and customary tip will be reimbursed to the individual traveler." The wording in the policy, "usual and customary", allowed the traveler's discretion to determine what tip amount was appropriate. In addition, without clarification in the policy a traveler could calculate the tip based on the total before tax or the total after tax. Internal Audit noted 22 tips paid by the travelers within the City Manager's Office, Police Department and Transit Department samples which exceeded 20 percent. Based on before tax calculations, the tip percentages on these 22 payments ranged from 20.83 to 47.9 percent.
3. ***Excess weight and multiple baggage fees were paid.*** An instance was noted with the Police Department sample in which, instead of paying an additional \$25 for a separate baggage fee or \$35 for an additional baggage fee, the City paid a \$100 excess weight baggage fee. In addition, there were two instances noted in which an additional baggage fee was charged. For one of these instances within the Police Department sample, there were two City travelers. However, for one instance within the Information Technology Department sample, one traveler took two bags, resulting in an additional \$70 baggage charge. The policy did not address overweight baggage fees or a baggage fee limit.

4. ***Payments were made for preferred seating.*** For air travel, the policy only required coach or business class, not first class unless the traveler pays the difference. There was no guidance in the policy about whether the City will pay for extras which may include: preferred seating which may allow a more favorable location on the flight; economy plus which provides for extra legroom; and “comfort+” providing more legroom, premium snacks and complimentary drinks, seating in the front of the plane, access to overhead bin space, Wi-Fi, complimentary pillow and blanket, and complimentary premium entertainment. There was one instance within the Police Department sample in which the City paid a total of \$41.94 for two travelers preferred seating; three instances within the sample for the City Manager’s Office in which the City paid a total of \$327 for “comfort+”, and one instance within the Information Technology Department sample in which the City paid \$191 for economy plus.
5. ***Employees did not carpool.*** Carpooling was not addressed in the policy, but it did require the most “economical and practical” form of transportation be used. Internal Audit noted five instances in which multiple employees from the same department attended the same conference/training and each employee was paid mileage. For three of these instances within the City Manager’s Office and the Information Technology Department samples two employees attended and traveled on the same day. One instance within the Information Technology Department sample in which nine employees attended an event with two traveling to the destination one day and seven traveling to the destination the following day. One instance within the Information Technology Department sample in which seven employees attended with two employees traveling to the destination on one day and the remaining five employees traveling to the destination the following day. Based on an Internal Audit inquiry, departments indicated the employees either served on committees and/or volunteered for work sessions that required different arrival times; the number of drive time hours and personal comfort levels prevented carpooling; or employee preference was to drive separate. A more economical solution for the City would have been a carpool or the use of an available City vehicle for any employees traveling on the same day to the same conference/training. For the instances noted, Internal Audit calculated a potential cost savings of \$2,228 had carpooling been utilized.
6. ***Late registration caused increased fees to be paid.*** Internal Audit noted five instances for which registration fees were paid late, therefore, additional fees were charged. In one instance within the Information Technology Department sample, four of the nine attendees paid the registration fee on the day the conference began and incurred a late registration fee of \$50 each. In one instance within the Information Technology Department sample two employees went to the same event and one employee appears to have taken a check for payment to the event incurring an additional \$550 fee. If available, employees should take advantage of early registration; particularly if there will be cost savings to the City.
7. ***Travel agent fees were paid.*** Internal Audit noted three instances within the sample for the City Manager’s Office in which an employee used a travel agent for travel arrangements and was charged a \$33 fee for each occurrence. A cost benefit analysis should be considered when using travel agents to ensure the most prudent use of the City’s resources. Based on an Internal Audit inquiry, it could not be determined if the use of the travel agent had been preapproved by department management. The use of travel agents was not addressed in the policy.
8. ***Excess car rental charges were paid.*** Internal Audit noted one instance within the Information Technology Department sample for which two employees attended the same training event and each employee rented a car. One employee paid the rental charges and later requested reimbursement, while the other employee charged the rental car fees on a City procurement card. Internal Audit calculated a potential cost savings of \$322.05 for this trip had only one rental car been utilized.

### **Recommendation**

The Office of Internal Audit recommends management review and update the *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures* to include, but not limited to, ensuring the policy provides clear, concise guidance on acceptable lodging rates; customary tips; baggage fees; preferred seating; carpooling; late registration fees and travel agent fees. In addition, training specific to travel and training expenditures should be required, and management should dedicate the appropriate resources and time to ensure proper training for department personnel.

### **Management's Response:**

We concur. Management is in full agreement with the recommendation. The Travel and Training Policy will be updated to address audit recommendations. Resources will be reviewed to ensure they are used in the most cost- effective manner. Training on processes and procedures will be offered. Accounts Payable staff will increase efforts to monitor travel documents.

Responsible Party: Ray Oxendine, Treasurer

Implementation Date: April 1, 2017

### **Finding 3**

#### ***Sales tax was not always recorded correctly.***

According to North Carolina General Statute 105-164.14.(c), a city is allowed an annual refund of sales and use taxes paid on direct purchases of tangible personal property and services. The City requests refunds based on the amounts recorded in JD Edwards as "tax amount". If the amount recorded in JD Edwards is overstated, the City could request more than is due and possibly receive an overpayment. Since this is a North Carolina sales and use tax refund, only North Carolina sales and use taxes paid should be recorded and requested for refund. Therefore, when a payment is made for purchases in a different state in which no North Carolina sales and use tax was paid, the out of state tax amounts should be charged as an expenditure and not recorded as sales taxes in JD Edwards, whereas, refunds should not be requested on these amounts. In addition, passenger facility charges, segment, 911 security, vehicle licensing and environmental fees, and excise and highway use taxes are not eligible for this refund. Internal Audit noted 27 food, hotel, rental car and airfare expenditures within the City Manager's Office, Police Department and Information Technology Department samples in which out of state sales tax or other ineligible fees and taxes were recorded in JD Edwards for a total ineligible amount of \$935.70.

Internal Audit also found one transaction within the Information Technology Department sample for which no sales tax was recorded. This transaction should have had eligible sales taxes to be refunded. The itemized receipt for this transaction should have been requested before any entry was made into JD Edwards.

For the Police Department, a new employee started entering the payment information into JD Edwards and was initially keying the taxes into JD Edwards since it was listed on the receipt. Based on an Internal Audit inquiry, the Finance Department indicated accounts payable training is provided to employees who request access in JD Edwards in order to enter accounts payable. However, the Finance Department was unable to provide documentation showing this training was provided. In addition, the procedures that the Finance Department said were provided to new employees did not specifically state exactly what amounts should and should not be included on the "Tax Amount" line in JD Edwards.

### **Recommendation**

The Office of Internal Audit recommends the Finance Department update the procedures to clearly explain what amounts should and should not be included as taxes in JD Edwards and provide an explanation on why out of state sales tax and other ineligible taxes and fees should be treated differently than North Carolina sales tax. Management should ensure personnel are trained on the updated procedures. The Finance Department should review all sales and use tax related transactions for the fiscal year 2017 to determine if the correct amount has been properly coded as an expenditure or sales tax.

In addition, proper adjustments should be made to the annual North Carolina sales and use tax refund request to ensure any out of state sales tax and other ineligible amounts are not included in the refund request.

**Management's Response:**

We concur. Management is in full agreement with the recommendation. When notified of new hires the Finance Accounts Payable staff will provide training and copies of an Accounts Payable manual updated to include issues identified in Finding #3. Training will include voucher entry procedures on coding invoice sales and use tax in JD Edwards. Our goal is to clearly identify proper coding for in-state and out-of-state taxes and amounts that are not eligible for recording in JD Edwards.

Refresher training sessions will be scheduled and conducted as necessary with departmental Office and Administrative Assistants. The sessions will include a discussion on why out of state sales tax and other ineligible taxes and fees should be treated differently than North Carolina sales tax.

The Treasurer and Accounts Payable staff will keep abreast of changes related to sales tax reporting and reimbursement with the State Department of Revenue. Accounts Payable staff will review all sales and use tax transactions for fiscal year 2017 to determine if coding errors have occurred and to post adjusting entries if applicable.

Responsible Party: Ray Oxendine, Treasurer

Implementation Date: April 1, 2017

***CONCLUSION***

The travel and training expenditures reviewed appeared to be for legitimate City business. However, controls for travel and training expenditures need improvement to ensure compliance. In addition to the violations of existing City policy noted during this audit, there were instances in which existing City policy on travel and training could provide better guidance not only to ensure a better understanding of the policy, but also to assist in preventing fraud, waste and abuse. Also, the current policy indicates the traveler may be required to return travel advances if the expense statement is not submitted in a reasonable time. However, the current process only tracks expenditures that are properly coded to the travel advance objects in the general ledger. For these cases, Internal Audit recommends updating the *City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures*.

Internal Audit recommends improving oversight by updating the policy to strengthen internal controls; provide clear guidance; establish a process to track and reconcile travel expenditures; ensure employees are properly trained on all policies related to travel and training expenditures; establish clear guidance on the level of documentation required to show the various alternative travel methods considered; and establish and enforce disciplinary actions. Because consequences for policy violations are a critical part of ensuring policy compliance, Internal Audit recommends clearer guidance be provided on how violations should be escalated.

Internal Audit wishes to thank the Finance Department and other City departments that participated in this audit for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

Elizabeth H. Somerindyke  
Director of Internal Audit

Signature on File

Rose Rasmussen  
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