



MOSSADAMS

FINAL REPORT
FOR
CITY OF STOCKTON
INTERNAL CONTROLS TESTING:
TRAVEL EXPENSES

May 7, 2018

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I. OVERVIEW

A. BACKGROUND

Moss Adams, as the contracted internal auditor for the City of Stockton (the City), tested the operating effectiveness of key internal controls over the City's travel expenses. Our review took place between December 2017 and April 2018.

The testing of internal controls for operating effectiveness was completed under the consultancy standards of the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance. The specific methods used for testing controls over travel expenses are presented in the *Scope and Methodology* section (below).

B. SCOPE AND METHODOLOGY

The scope of our review was the City's current travel expense processes and practices. We selected a sample of employee travel expense records from the period of July 1, 2017 to September 30, 2017. To test the operating effectiveness of internal controls over travel expenses, we performed the following activities:

- Interviewed key personnel, including:
 - Assistant Chief Financial Officer
 - Supervising Accountant
- Gathered and reviewed relevant documentation, including:
 - Documented policies, procedures, and forms related to travel expenses
 - List of all travel expense claims from July 1 to September 30, 2017
 - Supporting documentation of incurred expenses selected for testing
- Performed tests of internal controls relating to travel expense processing and reimbursement that included the following elements:
 - A travel policy is documented that identifies the City's policies and procedures related to traveling within the scope of work.
 - The appropriate travel form was used for one-day and overnight travel.
 - Mileage reimbursement was submitted on the Mileage Report Form (for in-city travel).
 - The business purpose of travel expenses was appropriately supported and approved by management prior to costs being incurred.
 - A separate Travel Request Form was completed for each individual traveling on extended travel.
 - Travel expenses were allowable and reasonable in accordance with criteria set by the travel policy.
 - Travel advances were paid in advance of eligible meals and mileage cost incurred totaled in excess of \$100.
 - Travel expenses were appropriately supported with a receipt or other adequate supporting documentation.



- Costs incurred were reviewed and approved by an appropriate member of management.

C. SUMMARY OF RESULTS

The results of our testing revealed opportunities for the City and its departments to further improve practices related to travel expenses. In particular, we observed weaknesses in the following control areas:

- A travel policy is documented that identifies the City's policies and procedures related to traveling within the scope of work.
- The business purpose of travel expenses was appropriately supported and approved by management prior to costs being incurred.
- Travel expenses were allowable and reasonable in accordance with criteria set by the travel policy.
- Travel expenses were appropriately supported with a receipt or other adequate supporting documentation.
- Costs incurred were reviewed and approved by an appropriate member of management.

The overall conclusion is that the City should correct these issues within the next six months and continue to implement the other controls that were tested without exception. To expedite these improvement efforts, as part of a separate project, we have provided City staff with examples of best practices regarding travel expenses to consider when revising the City's travel policies and procedures.

Moss Adams would like to thank the staff of the City of Stockton for their cooperation and assistance during our review.



II. SCOPE, METHODOLOGY, AND RESULTS

A. SCOPE AND METHODOLOGY

To assess operating effectiveness of key controls over travel expenses, our tests of operating effectiveness included the following:

- We inspected the current travel policy and standard forms to ensure policies and procedures related to traveling within the scope of work were documented.
- We judgmentally selected 35 travel expense claims between July 1 and September 30, 2017, and inspected supporting documentation to ensure travel expenses incurred satisfied the following testing attributes:
 - The appropriate travel form was used for one-day and overnight travel.
 - Mileage reimbursement was submitted on the Mileage Report Form (for in-city travel).
 - The business purpose of travel expenses was appropriately supported and approved by management prior to costs being incurred.
 - A separate Travel Request Form was completed for each individual traveling on extended travel.
 - Travel expenses were allowable and reasonable in accordance with criteria set by the travel policy.
 - Travel advances were paid in advance of eligible meals and mileage cost incurred totaled in excess of \$100.
 - Travel expenses were appropriately supported with a receipt or other adequate supporting documentation.
 - Costs incurred were reviewed and approved by an appropriate member of management.

B. TESTING RESULTS

TEST	RESULTS	FINDINGS/ OBSERVATIONS
A travel policy is documented that identifies the City's policies and procedures related to traveling within the scope of work.	N/A	See <i>Observation 1</i> for details.
The appropriate travel form was used for one-day and overnight travel.	No exceptions were noted.	See <i>Observation 2</i> for details.
Mileage reimbursement was submitted on the Mileage Report Form (for in-city travel).	No exceptions were noted.	None
The business purpose of travel expenses was appropriately supported and approved by management prior to costs being incurred.	No exceptions were noted.	See <i>Observation 3</i> for details.
A separate Travel Request Form was completed for each individual traveling on extended travel.	No exceptions were noted.	None



TEST	RESULTS	FINDINGS/ OBSERVATIONS
Travel expenses were allowable and reasonable in accordance with criteria set by the travel policy.	Exceptions were noted for 2 out of 35 samples tested.	See <i>Finding 1</i> for details.
	An exception was noted for 1 out of 35 samples tested.	See <i>Finding 2</i> for details.
Travel advances were paid in advance of eligible meals and mileage cost being incurred totaling in excess of \$100.	No exceptions were noted.	None
Travel expenses were appropriately supported with a receipt or other appropriate supporting documentation.	Exceptions were noted for 5 out of 35 samples tested.	See <i>Finding 3</i> for details.
	Exceptions were noted for 2 out of 35 samples tested.	See <i>Finding 4</i> for details.
Costs incurred are reviewed and approved by appropriate an member of management.	No exceptions were noted.	None



III. FINDINGS AND RECOMMENDATIONS

1	FINDING	<p>Adequate and appropriate documentation was not provided for travel-related costs that deviated from the travel policy.</p> <p>During testing, we noted two instances where travel-related costs were incurred that deviated from the travel policy requirements. Although these costs were approved by a supervisor, documentation to support the approving supervisor's reason for justifying the costs was not maintained.</p> <ul style="list-style-type: none"> In one instance, we noted that no documentation was maintained to support the justification of reimbursing mileage in excess of 400 miles rather than airfare. According to the travel policy, mileage payments exceeding 400 miles (round trip) will be subject to evaluation and compared to equivalent airfare, and the lowest dollar amount will be paid. In one instance, we noted that no documentation was maintained to support the justification of reimbursing a lunch per diem for attendance of a committee meeting when the meeting agenda indicated lunch and beverages were available. The travel policy indicates that meals included in registration costs cannot be claimed for reimbursement or advance.
	RECOMMENDATION	<p>Update the travel policy and train staff on protocols to address justifications for departure from policy.</p> <p>To mitigate the risk of non-compliance with established policies and procedures, the City should revise the travel policy to address justification and approval requirements if a departure from established policy is observed. The requirements should be communicated to City employees and training should be provided as necessary.</p> <p>Furthermore, accounts payable staff should be trained to request additional documentation to support justification for departures from policy regardless of whether the cost was approved by a direct supervisor.</p>
2	FINDING	<p>One travel expense was reimbursed at a higher GSA per diem rate than established for the event location.</p> <p>According to the City's travel policy, employees will be reimbursed based on GSA rates of the city where work is performed. During our testing, we noted one instance where an employee was reimbursed for per diem Meals and Incidental Expenses (M&EI) at a higher GSA rate than what was established by GSA for that specific event location.</p>



	RECOMMENDATION	<p>Revise the Travel Request Form and strengthen the review process related to per diem reimbursement.</p> <p>The City should update the travel policy to clarify that GSA per diem rates are based on the location of the work activities, and not the accommodations if they are in different cities. The updated policy should be communicated to employees and training should be provided as necessary.</p> <p>Furthermore, the Travel Request Form should be revised to more clearly identify the location of work performed and related GSA rates.</p>
3	FINDING	<p>Some travel expense reimbursement claims did not include documentation to support mileage calculations.</p> <p>During our testing, we noted five instances when evidence to support mileage calculations were not included with expense packets submitted for reimbursement. According to the travel policy, costs incurred for travel-related expenses are required to be supported.</p>
	RECOMMENDATION	<p>Revise policies to strengthen documentation requirements related to mileage reimbursement.</p> <p>To mitigate the risk of incurring travel costs not related to City business, the City should require documentation that supports the accuracy of business-related mileage submitted for reimbursement. This can be accomplished by including printouts of travel directions, which can be generated with various online sources (i.e., Google Maps, Mapquest, etc.).</p>
4	FINDING	<p>Hotel reservation confirmation was submitted in lieu of a receipt with travel expenses.</p> <p>According to the travel policy, dated receipts are required to be submitted with travel expenses. During our testing, we noted two instances for which hotel booking confirmations were submitted with expense reports in lieu of a room receipt.</p> <p>Upon further inquiry, we noted the room receipts in both instances were submitted with the purchase card support in a separate file.</p>
	RECOMMENDATION	<p>Revise policies to clarify documentation requirements related to receipts.</p> <p>To mitigate the risk of incurring travel costs not related to City business, the City should revise the travel policy to ensure documentation requirements to support costs incurred are clear. Additionally, the updated policy should address documentation to be included for expense report submittals when travel accommodations are paid with a City credit card. The revised policy requirements should be designed to promote efficiency when reconciling between monthly purchase card statements and travel expense reports.</p>



The updated policy should be communicated to employees and training should be provided as necessary.

Furthermore, accounts payable staff should be provided with refresher training on appropriate forms of documentation needed to support costs incurred and procedures for questioning costs if requirements are not met.



IV. ADDITIONAL OBSERVATIONS AND RECOMMENDATIONS

In addition to the findings described in the section above, during the course of our testing we made additional observations about the transactions we examined and the City's current processes. While these observations are not considered exceptions based on the current written criteria, we have included these observations because they represent additional opportunities for improvement.

1	OBSERVATION	<p>The travel policy has not been reviewed and updated since 2010.</p> <p>During our testing, we noted the travel policy was last updated on March 1, 2010.</p> <p>Continued implementation of outdated policies increases the risk of not achieving management's objectives, because policies have not been evaluated and realigned to address current operating risks.</p>
	RECOMMENDATION	<p>Review and update the City's travel policy and procedures.</p> <p>The City should update its travel policy and procedures to ensure continued relevance and effectiveness of management policies and procedures. In addition, the City should implement a schedule to reassess policies and procedures at least every two years or upon changes in standards or recommended Council actions.</p> <p>Upon revision, the updated policy should be communicated to employees and training should be provided as necessary.</p>
2	OBSERVATION	<p>Standard travel forms do not require a signature date from approvers.</p> <p>During our testing, we noted that the Travel Request Form and Owner Operator's Mileage Report do not require signature dates of the preparer and approver.</p> <p>The lack of dating approval signatures increases the risk of non-compliance with City policies, since it does not provide a timeline for when reported expenditures were approved.</p>
	RECOMMENDATION	<p>Update travel forms to require dated signatures.</p> <p>To mitigate the risk of incurring travel costs not related to City business, the City should revise all travel forms to include a signature date of the individuals preparing the form (travelers) and of the supervisors approving travel. The use of the revised form should be communicated to employees and training should be provided as necessary.</p>



3	OBSERVATION	<p>The Owner Operator's Mileage Report form does not identify a business purpose for travel incurred.</p> <p>According to the travel policy, the purpose of travel costs incurred is required in order for expenses to be reimbursed by the City.</p> <p>During our testing, we noted one instance for which the Owner Operator's Mileage Report form was used for reimbursement of mileage for "in-city" travel. The form did not have an area for employees to describe the business purpose for the travel, and no additional documentation was included to support the actual mileage incurred.</p>
	RECOMMENDATION	<p>Update the Owner Operator's Mileage Report Form to require a business purpose to be identified.</p> <p>To mitigate the risk of incurring travel costs not related to City business, the City should update the Owner Operator's Mileage Report Form to identify the business purpose of mileage cost being submitted for reimbursement. Also, the travel policy should be updated to define the use of this form in accordance with management policies.</p>





CITY OF STOCKTON

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June 4, 2018

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Below is the City of Stockton's management responses to the findings in the internal controls testing of travel expenses auditor's final report dated May 7, 2018:

Finding 1: Adequate and appropriate documentation was not provided for travel-related costs that deviated from the travel policy.

Recommendation: Update the travel policy and train staff on protocols to address justifications for departure from policy.

The City of Stockton's Management Response:

Management agrees that revisions of the travel policy are needed. Although it is a long-standing practice to consider the supervisor's authorization as approval for variations allowed within the travel policy, the language in the revised travel policy will substantiate this practice more clearly. In addition, training will be provided to travel administrators.

Finding 2: One travel expense was reimbursed at a higher GSA per diem rate than established for the event location.

Recommendation: Revise the travel request form and strengthen the review process related to per diem reimbursement.

The City of Stockton's Management Response:

Management agrees that revisions of the travel policy are needed. Although it is a long-standing practice to consider the supervisor's authorization as approval for variations allowed within the travel policy, the language in the revised travel policy will substantiate this practice more clearly. The revised travel policy will update and strengthen the use of GSA per diem rates for specific locations. In addition, training will be provided to travel administrators.

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Finding 3: Some travel expense reimbursement claims did not include documentation to support mileage calculations.

Recommendation: Revise policies to strengthen documentation requirements related to mileage reimbursement.

The City of Stockton's Management Response:

Management agrees. The travel policy will be revised to strengthen documentation requirements including mileage calculations, and training will be provided to travelers and travel administrators.

Finding 4: Hotel reservation confirmation was submitted in lieu of a receipt with travel expenses.

Recommendation: Revise policies to clarify documentation requirements related to receipts.

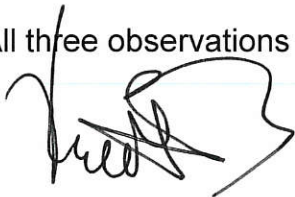
The City of Stockton's Management Response:

Management agrees. The travel policy will be revised to strengthen documentation requirements including hotel receipts, and training will be provided to travelers and travel administrators.

In addition to these findings, three observations were noted:

- The travel policy has not been reviewed and updated since 2010.
- Standard travel forms do not require a signature date from approvers.
- The owner operator's mileage report form does not identify a business purpose for travel incurred.

All three observations will be addressed in the revised travel policy.



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