

**Sensitive Payments Review
As of June 30, 2008**

**City of Tulsa
Internal Auditing
September 2009**



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A handwritten signature in black ink that reads 'Ron Maxwell'.

Ron Maxwell, CIA, CFE
Chief Internal Auditor

A handwritten signature in black ink that reads 'Phil Wood'.

Phil Wood, CIA, CFA
City Auditor

AUDIT TEAM:
Nathan Pickard
Tina McIntosh

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 2008. 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 this audit, it is the overall opinion of Internal Auditing that the system of internal control over sensitive payments 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. Internal Auditing noted no unvouchered expenditures for City of Tulsa transactions.
- **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.

IMPROVEMENT OPPORTUNITY I
EMPLOYEES ARE IN VIOLATION OF PARKING POLICY.

SUMMARY

The policy and procedure, titled City Hall Employee Parking, details the amounts the City will subsidize for the various parking lots available to City employees. It states that the standards of the policy apply to all employees who work at City Hall, and allows no exceptions for executives. As of January 2009, approximately 41 City Hall employees were receiving free parking benefits at the OTC garage. The policy does not provide for free parking benefits in the OTC garage.

RECOMMENDATION

Management should either change the policy to address who should receive free parking, or bring all employees into adherence with the parking policy.

RESPONSE

We agree a clearly stated parking policy that addresses all employee groups is needed. A policy will be written by June 30, 2010.

IMPROVEMENT OPPORTUNITY II

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

SUMMARY

The City Hall Employee Parking Policy and Procedure states that the standards of the policy apply to all employees who work at City Hall. A number of City employees work at other locations in the downtown area, such as Municipal Courts and Performing Arts Center. The City and public trusts pay differing portions of employee parking expense in these locations. At the Performing Arts Center, the Performing Arts Center Trust covers the full parking expense. Employees who do not work at City Hall do not have a policy addressing who receives paid parking benefits and who does not.

RECOMMENDATION

The City should develop written policies that cover all employees who receive parking subsidies from the City.

RESPONSE

We agree with recommendation and will address parking subsidies in the policy to be written by June 30, 2010.

IMPROVEMENT OPPORTUNITY III

FOOD AND BEVERAGE PURCHASES WERE MADE WITHOUT SUFFICIENT DOCUMENTATION OR PROPER AUTHORIZATION.

SUMMARY

Executive Order 2001-01 created documentation requirements for food and entertainment expenditures. Accounts Payable 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 entertainment expenses.

Out of 29 transactions reviewed, 25 had one or more exceptions. Internal Audit noted the following 56 exceptions during review of documentation:

- Not properly approved by department head (18 exceptions)
- Inadequate documentation (17 exceptions)
- Not properly authorized in advance by Mayor (19 exceptions)
- Incorrectly coded account number (2 exceptions)

RECOMMENDATION

Finance Department should inform appropriate City employees of food purchase requirements through training and periodic reminders as well as enforcement of policies.

RESPONSE

We learned through discussions with Internal Auditing most of the food purchases that did not comply with executive order requirements were made with P-Cards. An email reminder on food purchase requirements was sent from Purchasing on August 12, 2009. In addition to Internal Auditing's recommended corrective action, we plan to update the 2001 executive order. Target date for completion is December 31, 2009.

IMPROVEMENT OPPORTUNITY IV

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. In reviewing five individuals' travel for six trips, the following documentation exceptions were noted:

- Travel voucher completed incorrectly. (Two instances)
- Personal account information not redacted prior to imaging. (Two instances)
- Travel authorization was not turned in within two weeks of the traveler's return. (Two instances).

Noncompliance with the policies increases the risk of improper payments.

RECOMMENDATION

Management should diligently enforce travel rules. Additionally, management should consider whether travel rules should be changed. Because the time requirements are frequently missed, management could consider lengthening or removing them.

RESPONSE

We agree with recommendation. The time requirements will be assessed to see if a modification is warranted and enforcement will be strengthened. This will be completed by June 30, 2010.

IMPROVEMENT OPPORTUNITY V

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." Regarding reimbursement of travel expenses, Tulsa Revised Ordinance Number 20892 states, "Only business telephone charges will be reimbursed." Likewise, 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.

RECOMMENDATION

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

RESPONSE

We agree with the recommendation. Changes to the Personnel Policy and Procedures Manual are planned for completion by December 31, 2009.

IMPROVEMENT OPPORTUNITY VI
MONITORING OF PUBLIC-PRIVATE PARTNERSHIPS IS INSUFFICIENT.

Internal Auditing first reported the following in June 2007:

SUMMARY

In the past, Internal Auditing noted:

- An employee who had monitoring responsibility had resigned and no one had been designated to continue monitoring.
- An employee had participated on a partner's board of directors as a voting member.
- An employee was designated as a partner's executive director.
- Two partners had continued operating in City facilities without current contracts. Both partners owed back bills. City staff was not monitoring the sites.

All of the situations above have been resolved; however, no changes have been made to administration and monitoring of public-private partnerships to prevent recurrence of similar situations. Significant risks related to improper management of public-private partnerships include violation of the Oklahoma Constitution, increased liability to the City, increased expenses, and activities that could bring discredit to the City.

RECOMMENDATION

Management should establish a system to ensure contracts with public-private partnerships are kept current, and all partners are appropriately monitored. A central record should be maintained listing all public-private partnerships and the City employees designated to monitor them. Responsibility should be assigned to review and update this list periodically.

RESPONSE

We agree with the recommendation. Responsibility for this has been assigned to an Economist in the Economic Development and Real Estate Management Division. A central record has been prepared and an electronic update reminder notification has been set in the IQ system.

IMPROVEMENT OPPORTUNITY VII
MONITORING OF FILINGS REQUIRED BY OKLAHOMA STATUTE IS NOT PERFORMED.

Internal Auditing first reported the following in June 2007:

SUMMARY

Oklahoma Statutes Title 60, Section 178.8, requires members of public trusts to fully and publicly disclose certain types of interests in the public trust. This section defines what transactions are considered a conflict of interest and must be disclosed. The statute requires conflict of interest forms be filed with the Oklahoma Secretary of State when such interests exist. In the past, some disclosures have not been made on a timely basis. When an appropriate disclosure by the trustee is not made, the trustee is subject to removal and the contract with the trustee is not enforceable.

RECOMMENDATION

Management should establish a monitoring system for each trust affected by Title 60, Section 178.8. The tracking system should be designed to inform management when reportable conditions exist and to file the necessary reports. Alternatively, management may elect to require all Title 60 trusts to make the semi-annual filings whether there are conflicts to report or not.

RESPONSE

The City Attorney has been assigned the responsibility for establishing a monitoring system to ensure appropriate disclosures are made. Information is being gathered to identify all Oklahoma Title 60 trusts because it appears that some of the trusts listed in TRO Title 39 are defunct, and there are other trusts (such as the Stadium Trust) that were not included in Title 39. The City Attorney is working on a spreadsheet that lists the trusts. When the trusts have been identified, an electronic notification process will be established using the IQ system. The reminder will go out on a semi-annual basis to the lawyers that support each trust. Target date for completion: June 30, 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 November 1991:

SUMMARY

The Personnel Policies and Procedures Manual includes 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, or
- 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

We agree with the recommendation. Changes to the Personnel Policy and Procedures Manual are planned for completion by December 31, 2009.

IMPROVEMENT OPPORTUNITY IX

POLICIES AND PROCEDURES DO NOT INCLUDE GUIDELINES ON GIVING OF GIFTS.

Internal Auditing first reported the following in November 1991:

SUMMARY

While there are several policies and procedures relating to accepting gifts, there are none that address giving gifts on the City's behalf. 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. However, the revisions did not address giving of gifts.

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 will take appropriate action.

RESPONSE

We agree with the recommendation. Changes to the Personnel Policy and Procedures Manual are planned for completion by December 31, 2009.

REPORT DISTRIBUTION

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| Councilor, District 1 | Human Rights Director |
| Councilor, District 2 | Information Technology Director |
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| Councilor, District 4 | Municipal Court Administrator |
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| Airport Director/TAA | Purchasing Division Manager |
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