



# **Sensitive Payments Review**

**As of June 30, 2011**

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**City of Tulsa Internal Auditing**  
**May 2012**



# Sensitive Payment Review

As of June 30, 2011

## City of Tulsa Internal Auditing

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Ron Maxwell, CIA, CFE  
Chief Internal Auditor

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Clift Richards, CPA  
City Auditor

### AUDIT TEAM:

Cecilia Ackley, CPA  
Lela Walden, CPA  
Seth Potter, 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 2011. 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 opinion of Internal Auditing that the system of internal control over sensitive payments is adequate.**
- **This report includes three Improvement Opportunities and supporting recommendations.**
- **All recommendations have been accepted.**

### 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*** - Executive compensation was reviewed for proper authorization and compliance with City of Tulsa Policies and Procedures. Stipends and allowances were reviewed for proper authorization and processing.
- ***Travel*** - Travel records for selected individuals were reviewed. Tests were performed to determine if travel costs were proper and in compliance with ordinances, policies and procedures.

- **Official Entertainment Funds** – These funds represent amounts routinely below financial statement materiality thresholds. However, the public is very sensitive to undue benefits or influence which may be obtained through improprieties. The practices, and procedures were reviewed for adequacy and compliance with City of Tulsa ordinances.
- **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.
- **Speaking Honoraria and Gifts** - The adequacy of policies and procedures related to speaking honoraria and gifts was evaluated. Donations were reviewed for proper handling and recording in the financial statements, as well as physical custody.
- **Executive Perquisites** - An evaluation was made of whether city executives receive perquisites. Related policies and procedures were reviewed and accounting entries selected and tested for compliance.
- **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. Ongoing ethics and conflicts of interest practices were reviewed.
- **Follow-up Review** – Recommendations from previous Sensitive Payments Reviews were evaluated to determine whether corrective action was completed and effective.

## **Improvement Opportunities**

### **IMPROVEMENT OPPORTUNITY I**

#### **Employee Parking**

#### **SUMMARY**

**Condition:** Internal Auditing first reported the following in June 2008:

1. There is no policy or procedure that describes and supports subsidized parking for certain executives and non-executives at City of Tulsa locations.
2. There is no clear directive, policy and/or procedure on parking subsidies and benefits provided by the City of Tulsa.

#### **RECOMMENDATION**

Management should establish and implement a policy and procedures defining who and under what conditions parking is subsidized. This would include proper accounting for the perquisite as well.

#### **RESPONSE**

1. The City Hall Employee Parking Policy is outdated and is being revised. Anticipated completion is July 2013. **Section 4. - Discounted Parking** will include the following or similar wording: The City of Tulsa maintains XX(number) of spaces for the convenience of City business. (City Manager)
2. A policy was drafted several months ago, but remains in legal for approval. (Personnel Director)

**IMPROVEMENT OPPORTUNITY II**  
**Oversight of donations made to the City of Tulsa**

**SUMMARY**

**Condition:** Request For Actions (RFAs) - Donations are not reviewed by Finance for necessary accounting action and oversight. The Office of the City Clerk receives notification (RFAs) of Donations from throughout the City of Tulsa. These are approved by Council and the Mayor. Accountants rely on reviews of Mayoral Agenda items that do not provide adequate detail for analysis. There is no procedure in place for insuring that accounting entries are made and the donations are used as intended.

**RECOMMENDATION**

The City should establish a process for insuring that accounting entries are made and the City complies with the donation restrictions.

**RESPONSE**

The recommendation is accepted and has been implemented. The Council Secretary and the City Clerk's Office have agreed to a process that will circulate Council accepted donations to the Accounting Division of the Finance Department in order for accounting entries to be recorded. (Finance Director)

**IMPROVEMENT OPPORTUNITY III**  
**Executive Salary changes**

**SUMMARY**

**Condition:** The City of Tulsa's Policies and Procedures Manual requires documentation supporting all salary changes. Salary changes require signed Personnel Action Forms. Once the changes are made, an audit sheet should be verified and placed in the employee's file, as well. Temporary Out of class pay must be approved, and expires after 90 days. The documentation supporting executive salary changes was not always available. Three of nine selections tested for 2011 did not have appropriate documentation.

**RECOMMENDATIONS**

- Human Resources should consider implementing additional steps to insure the documentation supporting changes is accurate, complete and maintained in accordance with policy and procedure.
- Additional monitoring should be considered to comply with temporary directives for out-of-class pay.

**RESPONSE**

Human Resources recognizes the need for formal authorizations and approvals on all pay changes, particularly extensions and exceptions to the stated policies. Occasionally these approvals have occurred through informal means of verbal communications. Whenever possible we will strive to follow up these approvals with written confirmation for documentation purposes. We also anticipate that upon implementation of Time and Attendance/HRIS workflow modules (Scheduled in Jan 2013), we will have a better method for obtaining and tracking approvals electronically and controls can be set to ensure approvals are in place prior to processing pay changes. (Personnel Director)



## Status Of Prior Report Findings

**Condition:** Stipend Payments are not addressed in the Human Resource Personnel Policy and Procedures.

***Internal Auditing first reported the Finding in June 2009.***

**Status at FY2011: Corrective Action was implemented.** Personnel Policies and Procedures Section 200, Paragraph 229, effective May 16, 2011, addresses stipends.

**No Further Action.**

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**Condition:** Employees are in violation of parking policy.

***Internal Auditing first reported the Finding in June 2008.***

**Agreed Upon Corrective Action:** 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.

**Status at FY2011:** Corrective Action has not been implemented. See Improvement Opportunity 1.

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**Condition:** City employees working at downtown locations other than city hall are not covered by parking policy.

***Internal Auditing first reported the Finding in June 2008.***

**Agreed Upon Corrective Action:** 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.

**Status at FY2011:** Corrective Action has not been implemented. See Improvement Opportunity 1.

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**Condition:** Food and Beverage purchases were made without sufficient documentation, proper authorization, or were not for a proper business purpose.

***Internal Auditing first reported the Finding in June 2008.***

**Status at FY2011:** Revisions to the procedures were made in early 2011 which Respond to this issue. No exceptions were noted in FY2010-11.

**No Further Action.**

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**Condition:** City lacks written policy for employee entertainment and promotional expenses not related to travel.

***Internal Auditing first reported the Finding in June 2009.***

**Status at FY2011:** Revisions to the procedures were made in early 2011 which responds to this issue. No exceptions were noted in FY2010-11.

**No Further Action.**

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**Condition:** Employees are not consistently complying with travel rules regarding timely voucher submission.

***Internal Auditing first reported the Finding in June 2009.***

**Status at FY2011:** Finance has implemented a log to flag the submission deadline. Travelers and their supervisors are contacted by email when the final voucher is late.

**No Further Action.**

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**Condition:** A City policy for personal phone calls conflicts with ordinance and departmental policy.

***Internal Auditing first reported the Finding in June 2007.***

**Status at FY2011:** Corrective Action has not been implemented. However, due to impact of technology, personal calls are no longer routinely reimbursed.

**No Further Action.**

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**Condition:** Policies and procedures do not address some issues related to ethics and conflict of interest. Specifically, Personnel Policies and Procedures should 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.

***Internal Auditing first reported the Finding in June 1990.***

**Status at FY2011:** Corrective action has been implemented. Current audit work addressed this area and found no ongoing issues.

**No Further Action.**

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**Condition:** Policies and procedures do not include guidelines on giving of gifts.

***Internal Auditing first reported the Finding in June 2008.***

**Status at FY2010:** Corrective action has been implemented. City of Tulsa Policies and Procedures, Section 200, paragraphs 228 and 229.

**No Further Action.**

## **REPORT DISTRIBUTION**

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Councilor, District 1
Councilor, District 2
Councilor, District 3
Councilor, District 4
Councilor, District 5
Councilor, District 6
Councilor, District 7
Councilor, District 8
Councilor, District 9
City Auditor
Director of Communications
Mayor's Chief of Staff
City Manager
Director of Public Facilities and Transportation
Director of Community Development
Director of Sustainability
Chief Technology Officer
Press Secretary
Council Administrator
Council Secretary
Equipment Management Director
Finance Director
Sr. Admin. Services Officer
Controller, Accounting Division
Budget & Capital Planning Division
Treasury Division
Purchasing Division
Fire Chief
Personnel Director
Human Rights Director
Grants Administration
Working in Neighborhoods
City Attorney
Municipal Court Administrator
Park & Recreation Director
Performing Arts Center Director
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Director Streets and Stormwater
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