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Internal Audit Report

Pinal County
Countywide Travel Expense Review

November 2016

Executive Summary

Background

Pinal County employees travel for a number of County business needs, including conferences, trainings for job-relevant knowledge and skills, meetings with other jurisdictions, and attending State functions. County personnel charge expenses onto personal credit cards or a County issued travel card, and complete and submit expense reports for approval which are reimbursed through the accounts payable process.

Pinal County has published a travel policy and procedure to establish consistent procedures governing the travel and travel card activities for Elected Officials and employees to ensure effective management of travel and travel-like expenditures, and to ensure the travel policy is a useful resource for all County departments. County departments are responsible for prudent management of County assets and are required to review and approve expense reports timely.

The Finance Department is responsible for the administration of the County's finances and ensuring compliance with State laws and ordinances established by Pinal County.

Objective and Approach

The objectives of this audit were to: (1) examine expense reports and supporting documentation submitted by Pinal County employees to assess validity of the business expense and appropriate approval; and, (2) identify improvement opportunities related to the efficiency and effectiveness of travel expense report approval, reimbursement and monitoring controls.

Internal Audit procedures were performed using a sample of reimbursed expenses during the period of January 1, 2015, through December 31, 2015. In aggregate, Internal Audit reviewed 40 reimbursed expense transactions totaling \$57,155.16. County Departments included in the scope of the audit are listed in Appendix A.

A summary of procedures performed during this internal audit include:

- Understanding current processes and internal controls related to the submission, approval and monitoring of reimbursed business travel expenses.
- Identifying current expense reimbursement policies through reviewing the Travel Expense Reimbursement Policy.
- Performing detailed testing around a sample of reimbursed expense transactions
- Evaluating the results of testing and consulting with County Management regarding process improvement opportunities or enhancements to current policy.

A list of detailed audit procedures performed by Internal Audit can be found in Appendix B.

Process Summary and Key Statistics

Travelers are required to complete the Travel Expense Request Form¹. The first component of the form includes estimated expenses prior to booking travel (pre-trip) and the second component of the form reflects actual expenses incurred by county employees during travel (post-trip). Both components require authorization from an approval authority. Each Department Head or Elected Official may designate a person to serve as a reconciler. Their duties include collecting invoices, detailed receipts, and completed Travel Expense Request Forms from the traveler. The reconciler is responsible for auditing the supporting documentation for errors and omissions, coding expenses to appropriate accounts and obtaining Department Head or Elected Official's signed approval on the Payment Request Form² prior to forwarding to Finance Department for reimbursement. The Finance Department will reconcile the Payment Request Form with supporting documentation and will manually input data to be recorded in the general ledger.

The chart below represents a graphical representation of travel expense reported by category for calendar year 2015.



The majority of the \$449,182 total travel related expenditures were spent on registration fees, lodging, and mileage. Registration fees includes payments to attend training and seminars.

Summary of Results

¹ Travel Expense Request Form: Includes expense amounts, descriptions and approval of pre- and post-trip expenses.

² Payment Request Form: Departments use this form to code expenses and submit to County Finance Department for travel expense reimbursement and recording to the general ledger.

The County Travel Policy establishes limitations on employee travel and procedures to provide assurance that the County incurs reasonable and necessary cost for employee travel. Based on the work performed and documentation reviewed, we conclude that expenses in general appeared to be appropriate and in compliance with policy, however expenses reports were not consistently approved according to the policy.

Internal Audit noted instances where travel policies and procedures were not followed or require enhancement.

These include:

- Lack of compliance in completing pre- and post-trip expense forms;
- Lack of approval of expenses claimed;
- Missing receipts;
- Lack of clarity of travel policies and procedures for Elected Officials;
- Expense transaction account coding errors.

Process Strengths

During our review, Internal Audit notes the following strengths in the process:

- Detailed receipts for travel expenses were well documented and provided to the Finance Department.
- Travel expenditures appear to be appropriate and in compliance with Travel Policy.

Improvement Opportunities

Control and process improvement opportunities identified by Internal Audit are summarized below and discussed more thoroughly in the Improvement Opportunities and Action Plan section that follows.

The Risk Ranking of each improvement opportunities is defined in Appendix C

No.	Improvement Opportunities	Risk Ranking
1.	Travel expenses are not consistently approved or appropriately documented.	Medium
2.	Travel Policy and Procedures should be updated to provide clear and consistent guidance.	Medium
3.	Opportunities exist to increase the accuracy and efficiency of recording travel expenditure transactions.	Low
4.	Management should consider implementing a travel expense management software solution.	N/A General Observation

Improvement Opportunities and Action Plans

No.	Improvement Opportunities	Risk Ranking*	Recommendations	Management Action Plan
1	<p>Travel expenses are not consistently approved or appropriately documented.</p> <p>The travel policy sets out standards of practice, approval authorities and supporting documentation requirements for reimbursable expenses. Employee travel is documented on a Travel Expense Request Form, requiring pre- and post-trip approval from appropriate authorities. Employees attach receipts and other supporting documentation to support trip expenses and facilitate calculation of reimbursements. As a result of testing 40 expense reports, Internal Audit noted the following:</p> <ul style="list-style-type: none"> • One (1) Travel Expense Request Form was not appropriately approved prior to submitting expenses for reimbursement; • Fifteen (15) Travel Expense Request Forms did not contain pre-trip approval; • Eighteen (18) Travel Expense Request Forms were not completed or did not contain post-trip approval; and • One (1) Travel Expense Request Form did not include an itemized receipts for two meals. 	Medium	<p>Management should re-emphasize the reimbursement procedures to all County employees.</p> <p>Upon receipt, Finance Department should verify appropriate approval, supporting documentation and compliance with travel policy. If the form is not completed appropriately or is not properly supported, Finance Department should require the requestor to resolve the issue(s) prior to reimbursement.</p>	<p>Responsible Party Levi Gibson Expected Completion Date: 12/31/16 Management Action Plan: The Finance Department will issue a memo to all County employees summarizing common Travel Policy compliance issues and emphasize the required documentation for reimbursement.</p>
2	<p>Travel Policy and Procedures should be updated to provide clear and consistent guidance.</p> <p>Based on review of the Travel Policy and Procedures and testing of 40 expense reports, Internal Audit noted the following:</p> <ul style="list-style-type: none"> • For eight (8) of 40 samples selected, the Travel Expense Request Form was not completed or approved for an Elected Official • Departments have the authority to approve exceptions and travel card limits 	Medium	<p>Travel Policy and Procedures should be revised and recommunicated to all County employees, emphasizing the changes and the necessity for everyone to abide by the policy.</p> <p>Policy and Procedure updates to consider are:</p> <ul style="list-style-type: none"> • Travel expense reimbursement approval authority for Elected Officials should be clearly stated; 	<p>Responsible Party: Levi Gibson Expected Completion Date: 12/31/16 Management Action Plan: The Finance Department will evaluate the current Travel Policy and Procedures and draft a revision for review and approval by the Board of Supervisors. Revisions will</p>

* Risk Ranking: Includes High, Medium, and Low. See Risk Ranking Definitions in Appendix C for further detail.

No.	Improvement Opportunities	Risk Ranking*	Recommendations	Management Action Plan
	<ul style="list-style-type: none"> Procedures around required forms (pre-trip, expense request) and guidelines for travel advance payments are not well defined. Approval Authority for Elected Officials is not explicit. 		<ul style="list-style-type: none"> Exceptions to the policy should be limited; Finance Department should be defined as the final authority to make exception decisions; and Finance Department should be given sole authority to administer the Travel Policy and Procedures. 	be communicated to all County employees.
3	<p>Opportunities exist to increase the accuracy and efficiency of recording travel expenditure transactions.</p> <p>In order for employees to be reimbursed for travel related expenditures, the designated department travel expense reconciler creates a payment request form and codes expenses to accounts. This form is submitted to the Finance Department for review of supporting documentation and accuracy of account coding. Based on inquiry and review of 40 expense reports, Internal Audit noted the following:</p> <ul style="list-style-type: none"> Four (4) Travel Expense Request Forms contained transactions that were recorded to an improper account. County Finance manually inputs transaction data into the general ledger based on Travel Expense Request Forms. 	Low	<p>Finance Department should develop standardized guidance for expenditure account codes that are to be utilize.</p> <p>Additionally, the Travel Expense Request Form should be updated to include standard expenditure account codes.</p> <p>Management should consider requiring employees to submit an Excel version (secured by Finance) of the Travel Expense Request Form. After data has been validated for accuracy, the Accounting Clerk can copy and paste data into Oracle, which will reduce the risk of manual keying errors.</p>	<p>Responsible Party: Levi Gibson</p> <p>Expected Completion Date: Ongoing</p> <p>Management Action Plan: The Finance Department will revise and secure (lock cells) the excel Travel Expense Request Form and revise the expense reimbursement submission process to include acceptance of soft copy approval and submission. Management will also develop a retention process for soft copy submissions.</p>

General Observations (Management response is not required)

* Risk Ranking: Includes High, Medium, and Low. See Risk Ranking Definitions in Appendix C for further detail.

No.	Observations	Recommendations
4	<p>Management should consider implementing a travel expense management software solution.</p> <p>The County should consider utilizing an electronic travel expense management software to increase efficiency, reporting accuracy, and compliance to travel policies. An expense management software may be customized to include an approval process for travel related expenditures and restrictions can be set based on the County Travel Policy.</p>	<p>Internal Audit recommends performing a cost-benefit and resource analysis for the implementation of an electronic travel expense software to increase efficiency, effectiveness and automated internal controls. Management should evaluate business needs and existing software (Oracle, Concur, Onbase, etc.) to determine feasibility of County-wide implementation.</p>

Appendix A: List of Pinal County Departments Included in Scope of Audit

Assessor Department
Asst. County Manager Admin. Services
Behavioral Health & Public Fiduciary
Board of Supervisors
Budget & Research
Civil Hearing Office
Community Development
Correctional Health Services
County Attorney
County Manager
Courts Department
Economic Development
Environmental Health

Facilities Department
Finance Department
Housing Department
Human Resource
Information Technology
Medical Examiner
Public Defender
Public Health
Public Works
Recorder Department
Risk Management & Fleet Services
Sheriff Department
Treasurer Department

Appendix B: Internal Audit Procedures Performed

- Performed interviews with key individuals to understand and the processes established for travel expense reimbursement.
- Evaluated the adequacy of internal controls within the expense reimbursement processes based on interviews and expense policy review.
- Selected a sample of travel and travel related expense transactions throughout the period January 1, 2015 through December 31, 2015; and obtained the associated supporting documentation.
- Tested the selected transaction and related supporting documentation for adherence to policy and accurate recording in the general ledger.

Appendix C: Pinal County Risk Ranking Definitions

High	Medium	Low
Material impact on financial statements of the organization	Less than a material impact on financial statements	No impact on financial statements
Significant impact on the operating effectiveness	Moderate impact on operating effectiveness	Minor impact on operating effectiveness
Significant impact on the safeguarding of critical assets throughout the organization	Moderate impact on the safeguarding of critical assets	No significant risk to the organization
Significant impact on the accomplishment of the operational objectives for the organization	Moderate impact on the accomplishment of the operational objectives	Management relied upon for minor modifications to manage the issue
Significant impact on management's decision making for the organization	Moderate impact on management's decision making	Materiality is low
Significant risk for non-compliance with regulations, laws and policies	Potential for non-compliance with regulations, laws and policies	Minimal risk for non-compliance with regulations, laws and policies
Significant risk for litigation for the organization	Potential risk for litigation	Low risk for litigation
Numerous occurrences of the noted issue	Random occurrences of the noted issue	Minimal occurrences of the noted issue
No controls or mitigation plans exist	Controls/ mitigation plans need to be updated and improved	Controls/ mitigation plans are in place and consistently applied
Significant impact/loss of staff, critical widespread impact on morale	Some impact on a few staff or negative impact on morale	Minimal impact on staff