

OFFICE OF THE CITY CONTROLLER



**AVIATION DEPARTMENT
TRAVEL COST COMPLIANCE AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor

Report No. 2007-12



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

February 5, 2007

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Aviation Department
Travel Cost Compliance Audit – (Report No. 2007-12)

Dear Mayor White:

The City Controller's Office Audit Division has completed a travel cost compliance audit of the Aviation Department (Department) covering the period July 1, 2005 through June 30, 2006. The audit's objective was to determine whether travel expenses are supported, computed, approved and reported in compliance with Administrative Procedure 2-5, *Authorization and Reimbursement for Local and Out-of-Town Travel Related Expenses (Revised)*.

The report, attached for your review, concludes that the Department is in compliance with Administrative Procedure 2-5, except for the findings and recommendations presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The Views of Responsible Officials as to actions being taken are appended to the report as Exhibit I.

We commend Department management for their timely efforts to take action to remedy all of the deficiencies identified by the audit team. We also appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Jr., Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Richard M. Vacar, A.A.E., Director, Aviation Department
Judy Gray Johnson, Director, Finance and Administration Department

901 BAGBY, 8TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562
PHONE: 713-247-1440 • FAX: 713-247-3181
e-mail: controllers@cityofhouston.net

CONTENTS

LETTER OF TRANSMITTAL	i
SCOPE AND PURPOSE	1
CONCLUSION	1
INTRODUCTION	2
AUDIT FINDINGS AND RECOMMENDATIONS	
I. TRAVEL EXPENSE REPORTS NOT SUBMITTED TIMELY	3
II. REIMBURSEMENT/PAYMENT CHECKS NOT PROCESSED TIMELY	4
III. OUTSTANDING TRAVEL ADVANCES.....	5
IV. MISCLASSIFICATION OF TRAVEL EXPENSES	5
VIEWS OF RESPONSIBLE OFFICIALS	EXHIBIT I

SCOPE AND PURPOSE

We have completed a travel cost compliance audit of the Aviation Department (Department). The audit's objective was to determine if travel expenses were supported, computed, approved and reported in compliance with Administrative Procedure 2-5 (A.P. 2-5), *Authorization and Reimbursement for Local and Out-of-Town Travel Related Expenses (Revised)*. The audit scope period was from July 1, 2005 through June 30, 2006.

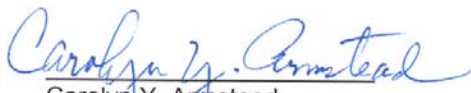
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with A.P. 2-5.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately comply with Administrative Procedure 2-5. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

CONCLUSION

Based on the results of our audit, we conclude that the Department is in compliance with Administrative Procedure 2-5, except for the findings and recommendations presented in the body of the report. We also provided the Department with a list of minor concerns that did not warrant a response.



Carolyn Y. Armstead
Auditor-in-charge



Richard P. Martinez
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

City of Houston employees attend a variety of local and out-of-town conventions, conferences, seminars, workshops, and meetings to gain knowledge specific to their area of responsibility, enhance professional skills, and conduct City business. The City's travel policy outlines procedures for City employees to obtain approval for and reimbursement of travel expenses connected with both local and out-of-town travel. It designates those responsible for authorizing travel and sets forth the procedures and forms necessary to obtain approval for travel, travel advances, and reimbursement of travel expenses. The policy also distinguishes between travel expenses that are eligible and not eligible for reimbursement. The policy applies to all salaried and non-salaried City employees and to all elected officials. During the scope period, the Department incurred approximately \$313,000 in training and non-training related travel expenses.

Employees use three forms to obtain approval for travel, travel advances, and reimbursement for travel expenses:

1. Travel Authorization to Attend Conventions, Conferences, Workshops and Business-Related Meetings (Appendix B),
2. Request for Travel Advance (Appendix C), and
3. Travel Expenses Summary Report & Log (Appendix D).

Employees must obtain prior approval with the use of Appendix B for local and out-of-town travel.

After an employee completes Appendix B, it is forwarded to the appropriate authority for approval. If a travel advance is requested, Appendix C is also submitted for approval. The approved Appendices B and C are then forwarded to the Controller's Office for review and issuance of funds. Conference registration fees and airfare are often paid well in advance of a trip. This practice reduces overall travel costs because many conferences and airlines offer discounts for early payment. Employees are required to submit Appendix Cs to the Controller's Office at least five days before the trip. Once the Controller's Office has received approved Appendices B and C, the employee receives the travel advance and departs on the trip.

Employees are required to complete an expense report, Appendix D, within 10 working days after completion of the trip. The employee and the appropriate authority sign the expense report and submit it to the Controller's Office for liquidation. Liquidation is the process of settling the travel advance. If actual travel expenses are less than the travel advance, the employee attaches a check to the expense report to reimburse the City for the excess. If actual travel expenses are greater than the travel advance, the Controller's Office issues the employee a check for the difference.

AUDIT FINDINGS AND RECOMMENDATIONS

I. TRAVEL EXPENSE REPORTS NOT SUBMITTED TIMELY

BACKGROUND

A.P. 2-5, Section 9.4, states, "Employees are required to complete a Travel Expense Report and Travel Related Log no later than 10 working days after completion of the trip. The expense report must be signed by the employee and the appropriate approving authority."

FINDING

Some employees are not submitting their expense reports in a timely manner. We reviewed 30 expense reports and noted that 11 (37%) were submitted more than 10 working days after trip completion. In two instances, the expense reports were submitted more than 1 year after the 10 working days requirement had expired. In some instances, the approving authority did not sign the expense report until weeks later.

Department finance personnel indicated that employees are sometimes requesting a review of their expense reports for errors and missing documents before submitting them for approval. Although this may help with accuracy, this action impedes the process of submitting timely expense reports as required by A.P. 2-5.

RECOMMENDATIONS

To help ensure that expense reports are liquidated in a timely manner, we recommend the following:

- Department management provide the necessary training to supervisors and employees regarding requirements of A.P. 2-5 to ensure they are aware of the policy and its procedures.
- Remind all employees as to the necessity of complying with the City-wide travel policy.

A.P. 2-5, Sections 6.3.3 and 6.3.3.4 states, "An employee may be denied a travel cash advance if he/she: Consistently submits the travel expense report late (more that 10 days after travel is completed)". Accordingly, we also recommend that Department management deny travel cash advances to employees who turn in Appendix Ds consistently late.

II. REIMBURSEMENT/PAYMENT CHECKS NOT PROCESSED TIMELY

BACKGROUND

Many employees when traveling for City business request a travel advance. Employees are required upon completion of their trip to submit an Appendix D, *Travel Expenses Summary Report & Log* attaching supporting receipts of expenses incurred. Also, Appendix C, *Request For Travel Advance* states, "If the advance payment exceeds the actual cost of travel, I agree to repay the excess to the City at the time that I submit the expense statement".

FINDING

We reviewed 30 travel vouchers, of which 24 were reimbursements due to the City and 6 were payments due to employees. We noted the following:

- Seven of 24 (29%) reimbursements checks were dated after the employee signed the Appendix D.
- Twelve checks (50%) for reimbursements were not deposited timely.
- One payment (17%) to an employee was not processed timely.

Finance personnel stated that there are instances when travel related forms are not correct and the check for reimbursement has to be changed to the correct amount. In those instances, the check is not submitted timely. Also, in other instances the approving authority does not approve the travel related forms within the required time and the employee must wait to submit their check until after the forms are approved.

RECOMMENDATIONS

To help ensure checks and payments are submitted, deposited and processed in a timely manner, we recommend the following:

- Department management emphasize to employees, supervisors and approving authority the need to complete and approve travel related forms within the required time as specified in A.P. 2-5. If the City is due a reimbursement from the employee, a check should be submitted at the time the travel forms are properly completed.
- Finance personnel responsible for depositing the reimbursement checks and processing payments do so promptly.

III. OUTSTANDING TRAVEL ADVANCES

BACKGROUND

A.P. 2-5, Section 9.4, states, "Employees are required to complete a Travel Expense Report and Travel Related Log no later than 10 working days after completion of the trip. The expense report must be signed by the employee and the appropriate approving authority."

The request and signature of the employee on Appendix C, *Request For Travel Advance* indicates the agreement to the terms of the travel advance, which states "I agree to submit all required expense statements within ten (10) working days of my return. If the advance payment exceeds the actual cost of travel, I agree to repay the excess to the City at the time that I submit the expense statement". It also states "If I do not submit the expense statement within the required time, I agree that the City may deduct the entire amount of the advance from my next paycheck following the ten (10) day filing requirement period".

FINDING

As of June 30, 2006 there were 20 outstanding travel advances for the Department. Nine of 20 (45%) advances were not liquidated within 10 working days as required on Appendix C. In one instance, the employee's trip ended in March 2006 and expenses were not liquidated until October 2006. The 20 outstanding travel advances as of June 30, 2006 have subsequently been liquidated.

Although Finance personnel remind employees of outstanding advances, the employees are disregarding the policy and the travel advance agreement made with the City as indicated on Appendix C.

RECOMMENDATION

We recommend that Department management enforce the travel policy that requires employees to liquidate their travel advance within the required time. Also, management should deny any employee a travel advance that consistently does not follow the travel policy requirements.

IV. MISCLASSIFICATION OF TRAVEL EXPENSES

BACKGROUND

Posting travel related expenses to the proper general ledger accounts provides management the financial controls for proper, complete and timely expenses.

FINDING

Expenses were not properly classified for five of 30 (17%) travel vouchers examined.

- Three of the 5 travel expenses were for training conference or seminar related travel. These trips were charged to Object Code 3950 – *Travel Non-Training Related*.
- Two of the 5 travel expenses were for trips involving award presentations or board meetings. These trips were charged to Object Code 3910 – *Travel Training Related*. Finance personnel stated that they processed these expenses because they thought the travel was training related.

RECOMMENDATION

We recommend Finance personnel review reported travel purposes more carefully in order to properly classify the expenses.

EXHIBIT I

CITY OF HOUSTON

INTEROFFICE CORRESPONDENCE

TO: Annise D. Parker
City Controller

FROM: Director of Aviation
Houston Airport System

DATE: January 9, 2007

SUBJECT: Travel Cost Audit Draft Report

We have reviewed the draft report regarding the Travel Cost Audit of the Houston Airport System. Following are the Houston Airport System management responses to audit findings I, II, III, and IV.

I. Travel Expense Reports Not Submitted Timely

Audit Finding: Some employees are not submitting their expense reports in a timely manner. We reviewed 30 expense reports and noted that 11 (37%) were submitted more than 10 working days after trip completion. In two instances, the expense reports were submitted more than 1 year after the 10 working days requirement had expired. In some instances, the approving authority did not sign the expense report until weeks later. Department finance personnel indicated that employees are sometimes requesting a review of their expense reports for errors and missing documents before submitting them for approval. Although this may help with accuracy, this action impedes the process of submitting timely expense reports as required by A.P. 2-5.

Audit Recommendation: To help ensure that expense reports are liquidated in a timely manner, we recommend the following:

- Department management provide the necessary training to supervisors and employees regarding requirements of A.P. 2-5 to ensure they are aware of the policy and its procedures.
- Remind all employees as to the necessity of complying with the City-wide travel policy.

A.P. 2-5, Sections 6.3.3 and 6.3.3.4 states, "An employee may be denied a travel cash advance if he/she: Consistently submits the travel expense report late (more than 10 days after travel is completed)". Accordingly, we also recommend that Department management deny travel cash advances to employees who turn in Appendix Ds consistently late.

Management Response: HAS will develop and provide additional training to supervisors and employees regarding the requirements of the A.P. 2-5 Travel Policy and Procedures. The additional training will emphasize timely submittal of expense reports. HAS will also implement a notification procedure to ensure that the employee, supervisor, and the approving manager are notified five (5) days before the report is due. HAS will also enforce the denial of travel cash advances to employees who consistently turn in their travel expense report late.

II. Reimbursement/Payments Checks Not Processed Timely

Audit Finding: We reviewed 30 travel vouchers, of which 24 were reimbursements due to the City and 6 were payments due to employees. We noted the following:

- Seven of 24 (29%) reimbursements checks were dated after the employee signed the Appendix D.
- Twelve checks (50%) for reimbursements were not deposited timely.
- One payment (17%) to an employee was not processed timely.

Finance personnel stated that there are instances when travel related forms are not correct and the check for reimbursement has to be changed to the correct amount. In those instances, the check is not submitted timely. Also, in other instances the approving authority does not approve the travel related forms within the required time and the employee must wait to submit their check until after the forms are approved.

*Views of Responsible
Officials*

EXHIBIT I

Annise D. Parker
City Controller

-2-

January 9, 2007

Audit Recommendation: To help ensure checks and payments are submitted, deposited and processed in a timely manner, we recommend the following:

- Department management emphasize to employees, supervisors and approving authority the need to complete and approve travel related forms within the required time as specified in A.P. 2-5. If the City is due a reimbursement from the employee, a check should be submitted at the time the travel forms are properly completed.
- Finance personnel responsible for depositing the reimbursement checks and processing payments do so promptly.

Management Response: The additional training and control processes covered under Finding I will ensure employees, supervisors and approving authorities complete and approve the travel related forms within the required time as specified in A.P. 2-5 of the Travel Policy and Procedure. Finance Division controls will be strengthened to ensure payments to employees are processed on a timely manner. Reimbursement checks received from employees will be deposited upon receipt.

III. Outstanding Travel Advances

Audit Finding: As of June 30, 2006 there were 20 outstanding travel advances for the Department. Nine of 20 (45%) advances were not liquidated within 10 working days as required on Appendix C. In one instance, the employee's trip ended in March 2006 and expenses were not liquidated until October 2006. The 20 outstanding travel advances as of June 30, 2006 have subsequently been liquidated. Although Finance personnel remind employees of outstanding advances, the employees are disregarding the policy and the travel advance agreement made with the City as indicated on Appendix C.

Audit Recommendation: We recommend that Department management enforce the travel policy that requires employees to liquidate their travel advance within the required time. Also, management should deny any employee a travel advance that consistently does not follow the travel policy requirements.

Management Response: HAS will enforce the travel policy that requires the travel advances to be liquidated within the required time as specified in the A.P. 2-5 Travel Policy and Procedure. In addition, HAS will deny travel advances to employees that consistently submit their travel expense reports past the 10 day requirement. Employees failing to submit their travel expense reports within the required time may be denied future travel privileges.


IV. Misclassification of Travel Expenses

Audit Finding: Expenses were not properly classified for five of 30 (17%) travel vouchers examined.

- Three of the 5 travel expenses were for training conference or seminar related travel. These trips were charged to Object Code 3950 - *Travel Non-Training Related*.
- Two of the 5 travel expenses were for trips involving award presentations or board meetings. These trips were charged to Object Code 3910 - *Travel Training Related*. Finance personnel stated that they processed these expenses because they thought the travel was training related.

Audit Recommendation: We recommend Finance personnel review reported travel purposes more carefully in order to properly classify the expenses.

Management Response: HAS will strengthen the posting review process to ensure proper classification of the expenses.


Richard M. Vacar, A.A.E.

RMV: tt

cc: Judy G. Johnson, Director, Finance and Administration
Sara S. Culbreth, Deputy Director, Houston Airport System

Views of Responsible
Officials