**Mecklenburg County
Department of Internal Audit**

County Manager's Office
Travel and Expense Audit
Report 1762

September 27, 2018

MECKLENBURG COUNTY
Department of Internal Audit

To: Dena Diorio, County Manager, County Manager's Office

From: Joanne Prakapas, Director, Department of Internal Audit

Date: September 27, 2018

Subject: County Manager's Office Travel and Expense Audit Report 1762

The Department of Internal Audit has completed its audit of the County Manager's Office, including the Board of County Commissioners, travel and expense process to determine whether internal controls effectively manage key business risks inherent to this activity. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; observed operations; tested various travel and expense activities from July 1, 2013 to December 31, 2017.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, key risks inherent to the travel and expense process were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities.

RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the audit, grouped by the associated risk factor, and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit's assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	**Criticality**	**Design**	**Operation**
1. Policies and Procedures Risk	🔴	🟡	🟡
1.1 Formal Documentation			
2. Compliance Risk	🔴	🟡	🟡
2.1 Inaccurate Expenses 2.2 Expense Report Timeliness			
3. Authorization Risk	🔴	🟢	🟡
3.1 Authorization Signature Form			
4. Documentation Risk	🟡	🟢	🟡
4.1 Supporting Documentation			
5. Human Resource Risk	🟡	🟡	🟢
5.1 Staff Training			
6. Segregation of Duties Risk	🔴	🟢	🟢
No risk observations noted			
7. Integrity Risk	🟡	🟢	🟢
No risk observations noted			

The risk observations and management's risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow-up review to verify management's action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

c: County Manager
    Assistant County Managers
    Deputy County Attorney
    Senior County Attorney
    Board of County Commissioners
    Audit Review Committee

BACKGROUND

The County Manager's Office (the Department) is responsible for implementing policies established by the Mecklenburg County Board of Commissioners (the Board) and is supported by four assistant county managers (the Executive Team). The County Manager executes policy decisions and oversees the administration of County departments. The County Manager also advises the Board on operational and financial matters, services and other issues, and submits an annual operating and capital budget for the Board's consideration. Assistant county managers provide executive oversight over their assigned departments.

Travel and Expense Process

All County travelers complete a Travel Authorization and Expense Report (TAER) at the start of their planned travels indicating estimated costs. Once the estimates page of the TAER is reviewed and approved by the appropriate person, it and all supporting documentation are submitted to the Financial Services Department (Finance) for further review and processing.

Upon returning from the trip, the traveler updates the TAER to reflect final travel expenses. The assistants to the County Manager and the Board are responsible for reviewing the County Manager, Executive Team, and Board's final TAERs with supporting documentation to ensure expenses comply with County travel policy. The TAER and documentation are then submitted to the appropriate person for approval and subsequent submission to Finance. The completed and approved TAER must be submitted to Finance within ten business days from the end of the trip. Ultimately, it is the County Manager's or designee's responsibility to thoroughly review and monitor the TAER before submitting it to Finance.

A traveler may use a County-issued travel procurement card to pay for certain expenses, such as training registration, ground transportation, and lodging, but it cannot be used for meals. All charges paid with the travel procurement card must be reflected in the final TAER.

Travel and related expenses processed between July 1, 2013 through December 31, 2017 are shown below.

County Manager's Office Travel Expenses
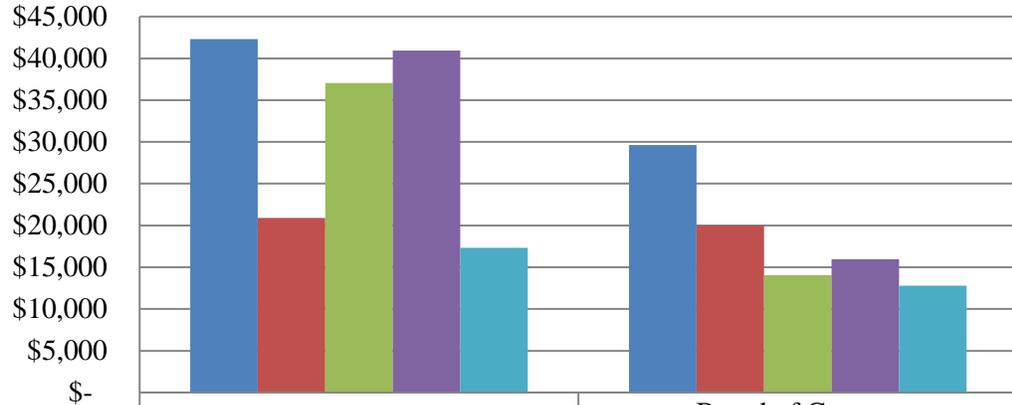
	Executive Team	Board of County Commissioners
■ FY14	$42,290	$29,622
■ FY15	$20,896	$19,995
■ FY16	$37,060	$14,060
■ FY17	$40,950	$15,967
■ FY18(YTD 12.31.17)	$17,304	$12,808

Source: Advantage Financial System, unaudited

RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	🔴	🟡	🟡

Risk Observation

1.1 Formal Documentation—While the County Manager's Office follows Mecklenburg County's Financial Policies and Procedures for travel, there are no department-level procedures governing the travel and expense process. Policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

Recommendation

1.1 Internal Audit recommends management develop and implement department-level travel and expense procedures and train staff and elected officials accordingly. Procedures should include, at a minimum:
- Document retention requirements
- Approval process
- Frequency of procedure reviews and updates
- Staff training requirements
- General ledger coding
- Staff roles and responsibilities

Management's Response

1.1 **Risk Mitigation Strategy:** Reduce   **Implementation Date:** December 31, 2018

Action Plan: The County Manager's Office (CMO) will develop and implement department level policies and procedures for travel activities. All CMO staff will be trained on the policies and procedures. The Board of County Commissioners will be provided copies of the policies and procedures and reminded of the importance of complying with County policies and procedures.

Risk Factor	Criticality	Design	Operation
2. Compliance Risk	🔴	🟡	🟡

Risk Observations

2.1   Inaccurate Expenses—Twenty-three of 45 or 51% of TAERs sampled had miscalculated, unrefunded, or unsupported expenses for items such as per diem rate, lodging, mileage, and baggage fees. As a result, an additional $2,752.96 should have been reimbursed to the County and $312.47 should have been reimbursed to various travelers. Failure to ensure expenses are appropriate and accurate may result in errors or fraud.

2.2   Expense Report Timeliness—Twenty-one of 45 or 47% of TAERs sampled were not submitted to Finance within 10 business days from the end of the trip. Late TAERs were submitted between 12 to 112 days after the traveler's return.

Recommendations

2.1   Internal Audit recommends management ensure all expenses, including travel procurement card charges, are reflected on the TAERs and are accurate, properly supported, and comply with County policy.

2.2   Internal Audit recommends management reemphasize to staff and elected officials the importance of submitting the TAERs within ten business days from the end of the trip.

Management's Responses

2.1   **Risk Mitigation Strategy:** Reduce   **Implementation Date:** December 31, 2018

Action Plan: The County Manager's Office (CMO) will develop and implement department level policies and procedures for travel activities. The procedures will include information on what supporting documentation is required for each trip. All CMO staff will be trained on the policies and procedures. Management and/or their support staff will ensure that the provided supporting documents and expenses are accurate, supported and comply with policy, working with the traveler to have appropriate documentation. The Board of County Commissioners will be provided copies of the policies and procedures and be reminded of the importance of complying with County policies and procedures.

2.2   **Risk Mitigation Strategy:** Reduce   **Implementation Date:** December 31, 2018

Action Plan: The newly developed policies and procedures will emphasize that TAERs with supporting documentation are to be submitted in a timeframe that ensures the finalized and approved TAER is submitted to Finance within ten days of returning from a trip. In addition, when reviewing TAERs, staff and elected officials will receive an email when their submission has exceeded the ten-day deadline. Reinforcing the policy requirement may increase overall compliance.

Risk Factor	Criticality	Design	Operation
3. Authorization Risk	🔴	🟢	🟡

Risk Observation

3.1   Authorization Signature Form—Management did not always provide Finance with the assigned Travel Signature Authorization form in 2015 in accordance with County policy. Yet, this form helps management ensure only staff formally approved to authorize travel activities are signing the TAERs.

Recommendation

3.1   Internal Audit recommends management ensures the Travel Signature Authorization form is completed each year, updating as necessary.

Management's Response

3.1   **Risk Mitigation Strategy:**   Reduce   **Implementation Date:** October 1, 2018

Action Plan: The Travel Authorization Signature Form will be completed annually at the beginning of each fiscal year. The Chief of Staff in the County Manager's Office will be assigned this accountability. This form will be updated as necessary throughout the fiscal year.

Risk Factor	Criticality	Design	Operation
4. Documentation Risk	🟡	🟢	🟡

Risk Observation

4.1   Supporting Documentation—The Department did not ensure travelers provided all necessary supporting documentation with their final TAER submissions to Finance. For 17 of 45 or 38% of TAERs sampled, estimates page, mileage statements, hotel receipts, and airfare receipts were absent. Without adequate supporting documentation, management cannot effectively ensure travel expenses are appropriate and in compliance with County policy.

Recommendation

4.1   Internal Audit recommends management thoroughly review final TAERs and ensure all necessary supporting documentation is included before approving and submitting to Finance.

Management's Response

4.1 **Risk Mitigation Strategy:** Reduce   **Implementation Date:** December 31, 2018

    Action Plan: The County Manager's Office will ensure that TAERs are thoroughly reviewed and ensure all necessary supporting documentation is included before approving and submitting to Finance.

Risk Factor	Criticality	Design	Operation
5. Human Resource Risk	🟡	🟡	🟢

5.1 Staff Training—The Department does not have a process in place to ensure staff and elected officials are aware of and understand the County's travel policy and procedures, as required. Non-compliance could have a financial or reputational impact to the organization.

Recommendation

5.1 Internal Audit recommends management ensure all staff and elected officials are aware of and understand the County travel policy prior to traveling.

Management's Response

5.1 **Risk Mitigation Strategy:** Reduce   **Implementation Date:** December 31, 2018

    Action Plan: The County Manager's Office (CMO) will develop and implement department level policies and procedures for travel activities. All CMO staff will be trained on the policies and procedures. Staff will sign a form indicating that they have participated in the training and understand the content. The Board of County Commissioners will be provided copies of the policies and procedures and reminded of the importance of complying with County policies and procedures.

APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Accounting Risk	Failure to accurately and timely record transactions may result in untimely or inaccurate compilation of information needed for financial and operational reporting and analysis.
Authorization Risk	Failure to clearly articulate and communicate those with the authority to commit the organization may result in internal and external misunderstandings.
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Documentation Risk	Failure to adequately collect, file, and retain key documentation may result in lack of accountability and/or evidence of inspection information and support.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Integrity Risk	Failure of employees, vendors, or other parties to carry out their activities in compliance with the law and ethical standards of the organization may result in fraud.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.

APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
● (red)	The inherent risk poses or could pose a significant level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
● (yellow)	The inherent risk poses or could pose a moderate level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
● (green)	The inherent risk poses or could pose a minimal level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit's judgment of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
● (red)	The process and system design does not appear to be adequate to manage the risk to an acceptable level.	The operation of the process' risk management capabilities is not consistently effective to manage the risk to an acceptable level.
● (yellow)	The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process' risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
● (green)	The process and system design appear to be adequate to manage the risk to an acceptable level.	The operation of the process' risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.