

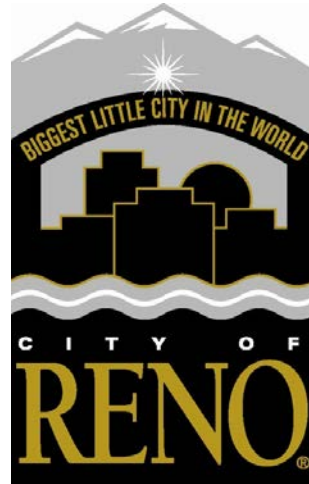
City of Reno

A Report to the Reno City Council

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City Auditor's Office



AUDIT REPORT

EXECUTIVE TURNOVER

JUNE 2018

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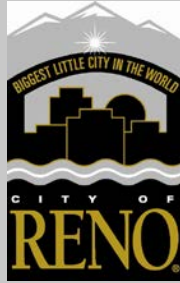
MISSION STATEMENT

To provide the City of Reno with an independent appraisal function designed to assist the Reno City Council, citizens, and City management in establishing accountability, transparency, and a culture of continuous improvement in City operations.

THE INSTITUTE OF INTERNAL AUDITORS' STANDARDS COMPLIANCE

The audit was conducted in accordance with standards of the Institute of Internal Auditors (IIA); sans Standards 1310-1 through 1321. 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.

Audit Highlights



Purpose of Audit

To determine if expenditures surrounding the executive personnel changes in the City Manager's Office's are reasonable, properly documented, and approved in accordance with established guidelines. To review departmental policies and procedures for completeness and documentation for succession planning. Also, to evaluate the risk of fraud, waste, and abuse relative to the audit objectives.

Audit Recommendations

Recommendations include:

- ✧ Purchasing policies be communicated to ensure appropriate completion and meaningful reviews of expenses and their supporting documentation.
- ✧ Consideration be given to updating the purchasing card expense documentation and approval methodology with software that allows for electronic approval, uploads, and storage.

Specific recommendations are included in the body of the report for each of the 21 audit findings. Management agrees with the recommendations and departmental actions are being taken.

For more information on this or other City of Reno internal audit reports, contact Emily E. Kidd at

EXECUTIVE TURNOVER

KEY FINDINGS

- ✧ At least one element of noncompliance was noted for 32 of the 44 purchasing card expenditures tested; an error rate of 73%.
- ✧ Training and travel documentation requirements were not completed or were completed inaccurately on 17 occasions of the 94 expenditures sampled for testing.
- ✧ Documentation of specialty purchases were not completed per established City policies for charity/recognition events. In addition, the vendors were not vetted at the time of purchase as required.
- ✧ Purchasing card expenditures were made by staff other than the cardholder during a transitional time period of divisional management.

BACKGROUND

A change in executive leadership at the City of Reno occurred 2016 – 2017. The scope of this audit is July 1, 2015 – June 30, 2017. During the two-year audit scope, there were some organizational differences of the programs within the City Manager's Office.

The City of Reno operates under a Council-Manager form of government as established by the City Charter. The City Manager's duties are to oversee the administrative operations of the City government, implement the policies set forth by the City Council, and to advise the Council. At the start of audit fieldwork, the City Manager's Office had direct governance over the following programs: Administration; Arts, Culture, & Special Events; Office of Communications & Community Engagement; Office of Economic Development; Intergovernmental Relations; and Sustainability.

BACKGROUND

Organization

The City of Reno operates under a Council-Manager form of government as established by the City Charter. The City Manager's duties are to oversee the administrative operations of the City government, implement the policies set forth by the City Council, and to advise the Council. Per the *City of Reno Annual Operating Budget Fiscal Year 2018*, the City Manager department's mission is, "To provide organizational leadership that inspires employees to be open, transparent, innovative and responsive problem solvers. To foster an organizational culture that is customer and business friendly." At the start of audit fieldwork, the City Manager's Office had direct governance over the following programs: Administration; Arts, Culture, & Special Events; Office of Communications & Community Engagement; Office of Economic Development; Intergovernmental Relations; and Sustainability. It should be noted that there were some organizational differences within the City Manager's Office during the two-year audit scope.

History of Personnel Changes in City Manager's Office

A change in executive leadership at the City of Reno occurred in 2016-2017. The previous City Manager was on administrative leave beginning early August 2016 with a last day of employment of October 10, 2016. The Assistant City Manager was appointed to the role of Acting City Manager on September 28, 2016. The current City Manager began employment with the City on May 8, 2017.

Audit Terminology

This report contains 21 exceptions. An exception is noted when audit testing identifies an area of noncompliance with documented policies or best practices. Simply put, exceptions identify areas of risk. Audit exceptions and recommendations are listed in the body of the report with management responses included as an appendix.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Executive management personnel changes have recently occurred at the City of Reno. Best practices suggest an “exit” or “turnover” audit be performed in this circumstance. The audit focuses on areas for which the City Manager is both directly and indirectly responsible. The audit objectives include:

- To determine whether departmental expenditures including host, operating, and travel are reasonable, properly documented, and approved in accordance with established guidelines.
- To review the purchasing trends of the department and evaluate for fraud, noncompliance, or other exposures.
- To determine whether capital assets \$10,000 and greater and sensitive equipment are properly tagged, tracked, and physically accounted for.
- To review departmental policies and procedures for completeness and documentation for succession planning.

Scope

The audit scope included a review of departmental procedures and transactions from July 1, 2015 to June 30, 2017. Fieldwork began November 1, 2017 and concluded February 2, 2018.

Methodology

The review included tests of the accounting records, inquiries with key personnel, and other auditing procedures as was considered necessary. Tests included, but were not necessarily limited to, these areas:

- Test expenditures for reasonableness, supporting documentation, and proper approval;
- Examine sampled capital, Information Technology (IT), and sensitive equipment for proper accountability;
- Review departmental policies and procedures;
- Evaluate the risk of fraud, waste, and abuse relative to the audit objectives.

AUDIT RESULTS

Review of Departmental Purchases

We reviewed expenditures from accounts assigned to the City Manager’s Office (CMO) for proper supporting documentation, approval, reasonableness, and compliance with established purchasing policies. Guidelines for purchasing procedures are documented in Management Policies and Procedures (MPP) #403 - Purchasing and also the *City of Reno Purchasing Card Program Cardholder Manual*. Sample expenditures tested include disbursements processed through the Finance Department and purchasing card (pCard) transactions issued to CMO employees and approved within the department.

Purchasing Card Expenditures - Items of Noncompliance

Sample audit testing included 44 pCard expenditures to obtain a mid-range sample as is an industry standard for audit testing of populations over 250. The following 49 exceptions were noted.

Training and Travel Documentation Noncompliance

1. Training and travel paid for with City funds are required to have proper approval prior to the expenditure with appropriate supporting documents maintained. Standards are documented in Management Policies and Procedures (MPP) 405 and are applicable to “All elected officials, officers, and City of Reno employees.” Thirteen instances of noncompliance were noted for four separate exception types.
 - *City of Reno Training/Travel Request Form* was not completed for the employee’s training/travel on five occasions.
 - *City of Reno Training/Travel Request Form* was not completed for an elected official’s training/travel on four occasions.
 - The *City of Reno Training/Travel Expense Report* was not completed on one occasion.
 - The employee’s *City of Reno Training/Travel Request Form* was not maintained with the pCard purchase reconciliation documents on three occasions.

MPP 405 includes the following criteria, “Training/Travel Request Form [is] used to obtain approval for training, travel associated with training ...” In addition, MPP 403 Section V states, in part, “It is the policy of the City of Reno to purchase goods and services necessary to conduct City Business ...” These citywide policies outline the framework for purchases generally and the *City of Reno Purchasing Card Program Cardholder Manual* details the staff roles and responsibilities for pCard expenditures. Specifically, it is the responsibility of the departmental liaison to “... make sure the transactions are legitimate business expenses and [are] classified appropriately.” It is the responsibility of the department head to ensure “all approvals/pre-approvals (i.e. travel, etc.) are still required in accordance with existing City of Reno policies and

procedures.” It is the responsibility of the purchasing card administrator to review “usage of Purchasing Card data for appropriateness.”

City staff purchasing, approving, and reviewing expenditures were not aware of and/or were not enforcing the policy requirements. In addition, the signatory review of pCard transactions did not include a review of the legitimate business reason for purchases. Without a review of the travel associated with the expenditure at the time of the approval, the approver of the pCard purchases is unable to determine if the transaction was for a legitimate business expense. City funds may be expended for non-City related business if established policies and internal controls are not completed for transactions. It should be noted that the training/travel for the elected officials were processed by City staff and not an elected official.

Recommendations:

We recommend the *City of Reno Training/Travel Request Form* and *Expense Report* be completed, approved as required, and maintained for training/travel expenditures. In addition, we recommend established policies for training and travel be communicated to applicable personnel to include pCard liaisons, management with signature approval authority, and pCard administrators.

Disallowed Travel Expenses Made

2. On four occasions, the airfare travel purchases were for Business Select. Per MPP 405 Section VIII.C.1.a, “Air travel should be in coach class or its equivalent, except in exigent circumstances approved by the City Manager.” City funds may be expended in excess if established policies are not completed in full for expenditures.

Recommendation:

We recommend airfare be purchased in compliance with established policies.

Reason for Travel Expense Not Documented

3. On one occasion, supporting documentation for the business reason for travel was not available. Without appropriate documentation and approval of expenditures, City funds may be misappropriated and used for non-City related activities. With the current documents maintained, it is unknowable if the expense was an appropriate use of City funds. MPP 403 Section V states, in part, “It is the policy of the City of Reno to purchase goods and services necessary to conduct business ...” Also, MPP 405 includes the following criteria, “Training/Travel Request Form

[is] used to obtain approval for training, travel associated with training ...”

Documentation of the associated City related activity was not included with the expenditure’s supporting documentation, nor was this requested and obtained during the pCard monthly review and reconciliation. City staff purchasing, approving, and reviewing expenditures were not aware of and/or were not enforcing the policy requirements.

Recommendations:

We recommend internal controls detailed in citywide purchasing policies be followed to ensure the appropriateness of expenditures. In addition, we recommend the expense be evaluated by management to determine if payment with City funds was appropriate.

**Specialty Expenses
Not Documented
per Policies**

4. On six occasions, expenditures were noncompliant with charity/recognition event purchasing policies. Four of the six expenditures did not have an accompanying *City of Reno Request to Purchase a Sponsorship Table or Seat(s)* as required and the remaining two forms were incomplete. MPP 211 outlines requirements of expenses for charity events including individual seats and table purchases and Section VIII.b states, in part, “Tables, seats and/or sponsorships are to be purchased by City Manager’s Office staff only. To make a purchase, a request for must be completed and submitted to the City Manager ...” City staff purchasing, approving, and reviewing donations and sponsorship expenditures were not aware of and/or were not enforcing the policy requirements. Without systematic approval and documentation of charity expenditures, City funds may be expended for non City related business. Allowing expenditures to be processed without the completion of forms required by established policies creates a poor internal control environment.

Recommendations:

We recommend the expenditures for charity events be documented, approved, and reviewed as required by established policies. In addition, we recommend the expenses identified be evaluated by management to determine if payment with City funds was appropriate.

**Non-Profit Status
Verification Not
Documented**

5. On one occasion, documentation of the eligibility of an organization as a non-profit entity was not available. MPP 211 Section VIII.a states, “Tables, seats and/or sponsorships to be purchased by the City of Reno must be to non-profit organizations.” City staff purchasing, approving, and reviewing donations and sponsorship expenditures were not aware of

and/or were not enforcing the policy requirements. Without verification of the eligibility of vendors claiming non-profit status, City funds could be issued to unallowable organizations. Further inquiries after this transaction was flagged by audit indicated the entity is not a non-profit organization.

Recommendations:

We recommend appropriate documentation of non-profit status for vendors claiming non-profit status receiving City funds be maintained with expenditure documentation. In addition, we recommend the expense identified be evaluated by management to determine if payment with City funds was appropriate.

**Donation Expense
Lacks Documentation**

6. On one occasion, a pCard was used for a transaction that was classified as a donation. A citywide policy does not exist for management donations. Documentation for the purchase does not specify if any membership or services are associated with the payment. Without approval and documentation of donation expenditures, City funds may be misappropriated.

Recommendation:

We recommend the City disallow this expense type or establish written policies for purchase type and the changes be communicated to applicable staff.

**Unauthorized
pCard Use**

7. During a transitional time period of divisional management, pCard purchases were made by personnel other than the cardholder. Examination of the 50 transactions completed with the pCard indicated the personnel initiating the transactions were in the same division and many of the purchases were made online for recurring services. None of the purchases were flagged as improper. The *City of Reno Purchasing Card Program Cardholder Manual (pCard Manual)* states it is the departmental liaison's responsibility to "request Purchasing Card Administrator to cancel a Cardholder's card (e.g. terminated employees, transferring departments, and loss of purchasing card privileges) as approved by Department Head."

The pCard identified was used for general, administrative departmental transactions and issued to a single employee; when that employee was in non-working status on administrative leave, the card continued to be used by department personnel. The policy for this particular situation is unclear. Allowing purchases initiated by personnel other than the

assigned cardholder degrades the internal control environment which exists to identify if improper purchases are made with an issued pCard and the associated responsibility of any unallowable charges. Policies clearly state the card must be in possession of the person named on the card at all times.

Recommendations:

We recommend pCard purchases only be made by the cardholder, the employee that is ultimately responsible for card purchases. In addition, we recommend a process be developed by Human Resources (HR) to communicate with the Finance Department when employees are in non-working status such as administrative leave to allow Finance to manage pCards issued to those employees. Also, we recommend the responsibility to initiate this process be documented in a policy and communicated to HR.

**Approved Expense
Not an Appropriate
Use of City Funds**

8. On one occasion, the purchase was not an appropriate use of City funds. MPP 403 Section V states, in part, “It is the policy of the City of Reno to purchase goods and services necessary to conduct City business ...” The identified purchase was for exercise equipment and was approved by previous management. The supporting documentation includes a notation that the supplies were in support of the “wellness account” and does not specify how the supplies are necessary to conduct City business. It should be noted the cost of the equipment was immaterial (\$144).

Recommendation:

We recommend expenditures of City funds be clearly associated with applicable City business. If there is a non-apparent need for the purchase, we recommend a memo from the purchaser be included in the expense documentation for review during the approval process.

**Expenses Approved
by a Subordinate
Employee**

9. On two occasions, the purchase approval was not appropriate; signature approval was from a subordinate employee. Best business practices support procedures for a non-subordinate employee to approve expenditures. Procedures for approval of a City Manager’s direct purchases were not clearly identified in documented policies. Without an appropriate approval structure, City funds may be misappropriated.

Recommendations:

We recommend expenditure approvals be obtained from non-subordinate employees for all purchases. In addition, we recommend details

pertaining to approvals for the City Manager’s direct purchases be included in departmental policies and procedures.

Expense Details Were Not Maintained

- 10.** On one occasion, an itemized receipt was not included in the supporting documentation for the expense. The *pCard Manual* states that the cardholder will “Obtain and reconcile all sales slips, register receipts, and/or Purchasing Card slips to Bank of America’s Cardholder statement and provide it to Departmental Liaison for reconciliation, approval and allocation of transactions.” Section 6.2 states the pCard cannot be “used to purchase alcoholic beverages ...” and section 6.12 states “purchases of tangible personal property made by City of Reno are exempt from sales tax. Therefore, do not agree to pay sales tax.” Without an itemized receipt for purchases, compliance with the policy cannot be determined.

Recommendations:

We recommend itemized receipts be required for purchases for this vendor type to ensure City policies are upheld. In addition, we recommend the purchasing policies be updated to clearly state that itemized receipts are required for expense reconciliation, this be communicated to applicable staff, and be upheld during expense reviews going forward.

Expense Applied to Inaccurate Account

- 11.** On seven occasions, the expense was not applied to the correct account. Three of the transactions were booked to training/travel when they were for charitable events and four were booked to outside services but were for books. Per the *pCard Manual*, it is the responsibility of the departmental liaison to “... make sure the transactions are legitimate business expenses and [are] classified appropriately” and the cardholder must, “Notify Departmental Liaison if the default accounting code should be changed on an individual transaction.” Improper classification of expenses degrades the value of financial reports and the ensuing analysis and decision-making.

Recommendation:

We recommend greater care be taken when assigning accounts to expenditures during the pCard review process.

Financial Analysis of pCard Expense Types is Not Possible

- 12.** The current method of processing pCard transactions does not allow for a commodity code to be included when the statement charges are entered into the financial system. On ten occasions, the purchase reviewed was an expense type that would benefit from monitoring such as charity

events, donations, memberships, and food costs. Commodity codes function as sub-accounts to classify purchases and system reports can be generated for specific codes to determine purchasing trends and annual allocations. Without proper coding, efficient financial analysis cannot be completed for these types of purchases. Also, additional staff time may be needed for records requests, financial analysis, and audit review.

Recommendation:

We recommend the methodology of processing pCard expenditures be reviewed and consideration be given to updating the process with software that allows for electronic approval, uploads, and storage.

**Cross-Divisional
pCard Expense**

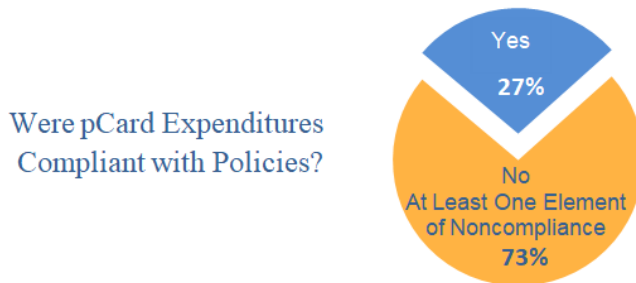
13. On one occasion, a pCard expense occurred for a City expense separate from the cardholder and the cardholder’s area of work. Per the *pCard Manual*, “The Cardholder must ... Not allow other individuals to use their Purchasing Card.” Cross-divisional purchases and account classifications from a pCard assigned to a specific employee degrades the internal control environment which exists to identify if improper purchases are made with a City issued pCard; this may increase the risk of misappropriation of City funds. City staff purchasing, approving, and reviewing pCard expenditures were not aware of and/or were not enforcing the policy requirements. It should be noted the appropriate account was booked for the expense, not the cardholder’s divisional account.

Recommendation:

We recommend pCard purchases only be made by the cardholder, the employee that is ultimately responsible for card expenditures. If there is a non-apparent need for the purchase, we recommend a memo from the purchaser be included in the expense documentation for review.

Purchasing Card Testing Summary

In summary, 12 of the 44 pCard transactions tested did not have an exception. This produces an error rate of 73% transactions with at least one element of noncompliance noted for 32 expenditures.



Other Expenditures - Items of Noncompliance

Sample audit testing included 50 disbursement expenditures to obtain a mid-range sample as is an industry standard for audit testing of populations over 250. The following 12 exceptions were noted.

Training and Travel Documentation Noncompliance

14. Training and travel paid for with City funds are required to have proper approval prior to the expenditure and appropriate supporting documents. In addition, reimbursement for travel must agree to the rates established by The U.S. General Services Administration (GSA). Five instances of noncompliance were noted for three separate exception types.

- *City of Reno Training/Travel Request Form* was completed after the employee's training/travel occurred on one occasion.
- *City of Reno Training/Travel Request Form* was not completed for an employee's training/travel on one occasion.
- The reimbursement amount including per diem was not calculated according to policies on two occasions.

MPP 405 includes the following criteria, "Training/Travel Request Form [is] used to obtain approval for training, travel associated with training ..." and "Reimbursement for travel will be at a rate established by the GSA." City staff purchasing, approving, and reviewing expenditures were not aware of and/or were not enforcing the policy requirements. City funds may be expended for unapproved items if established policies and internal controls are not completed for transactions.

Recommendations:

We recommend the *City of Reno Training/Travel Request Form* and *Expense Report* be completed, approved as required, and maintained for training/travel expenditures. In addition, we recommend established policies for training and travel be communicated to applicable personnel to include purchasing liaisons and management with signature approval authority.

Reimbursement Issued Without Supporting Documentation

15. On one occasion, an employee submitted reimbursement for five individual purchases. The documented support included the receipts of four purchases only. The approval and review process did not identify the discrepancy and the claimed reimbursement was issued in full.

Recommendation:

We recommend established policies for expense reimbursement be communicated to applicable personnel and include management review and approval standards as well as recordkeeping requirements.

**Required Approval
Not Obtained**

- 16.** On two occasions, documented approval was not completed per policy requirement. Both expenditures were for employee travel reimbursement related to job recruitment. Per MPP 406, Recruitment/Relocation Assistance, Section.VIII.F, “Upon approval of the City Manager, claims shall be paid in the same manner as other City disbursements...” Approval by the City Manager was not documented and maintained in the disbursements’ supporting documentation. City funds may be misappropriated if established policies are not completed in full for expenditures.

Recommendation:

We recommend disbursements’ approval be obtained and documented as required in established policies.

**Approval to
Non-Authorized
Account**

- 17.** On two occasion, management approving expenditure did not have approval for expenses on that account. In addition, this approval discrepancy was not noted during the review process conducted by Finance. Per MPP 403, Purchasing, Section.VIII.E, expenditure approvals require supervisory approval. The specific general ledger accounts for which the employee is authorized to approve are indicated on the *City of Reno Authorized Signature Form* and maintained by Finance. City funds may be misappropriated if established policies are not adhered to for City expenditure processing.

Recommendations:

We recommend expenditures be approved by supervisory staff that are authorized for account expenses. In addition, we recommend established policies be communicated to reviewing Finance staff.

**Expense Allocated to
Inaccurate Account**

- 18.** On two occasions, the expense was allocated to an inaccurate account. Improper expense allocations degrade the budgeting process and may deplete accounts’ budgeted funds for non-account related expenses. For one of these instances, the accurate account was the original entry into the disbursement stamp’s account field and was crossed out.

Recommendation:

We recommend greater care be taken when assigning accounts to expenditures during the approval process.

Expense Details Not Maintained

19. On one occasion, the expense was not documented according to best business practices; the itemized receipt was not available for examination. Compliance with policies cannot be determined without an itemized receipt for purchases, including the purchase of unallowable items and the payment of sales tax. Noted the updated purchasing policy effective on January 1, 2018 includes the requirement for departments to verify sales tax has not been charged.

Recommendations:

We recommend an itemized receipt be required for purchases to ensure City policies are upheld. In addition, we recommend established policies for expense reimbursement be communicated to applicable personnel to include management with review and signature approval authority.

Departmental Procedures

The City Manager's Office conducts various departmental procedures in the course of administering the day-to-day business of the City. CMO administrative staff also processes payments for elected officials.

Lack of Departmental Policies and Procedures

20. Departmental policies detailing internal controls and procedures for departmental functions do not exist. Documented policies support procedures that are conducted consistently and in an equitable manner. Documented internal control procedures, when in use, also assist with succession planning. In addition, conducting departmental operations without documented internal controls and process standards is not within management best practices.

Recommendation:

We recommend procedures be developed, documented, and communicated to applicable staff.

Equipment Management

Audit selectively sampled equipment purchased by the City Manager's Office and equipment observed and in use by the department. The sample included 14 individual items.

Lack of Internal Controls for Sensitive Equipment

21. On six occasions, the item did not include a bar code for tracking and was not included on a departmental equipment tracking document or the IT department's *IT Related Asset* inventory list. MPP 404, Capital Assets, Section VIII.A.4 states, in part, "Assets sensitive to loss will not be capitalized for financial reporting purposes, but will be tracked for internal control purposes and inventoried in accordance with the procedures set forth in this policy." Without a tracking methodology for

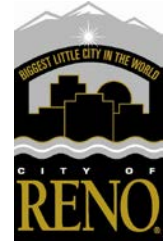
equipment sensitive to loss, inventory and accountability for City equipment is not possible. Audit was informed by the Information Technology Assistant Director that a procedure to affix bar codes to each City-owned monitor is planned.

Recommendations:

We recommend a sensitive equipment listing be maintained, the items identified be included, and periodic inventory of the equipment be conducted. In addition, we recommend a clear process owner of the listing and inventory process be identified and items sensitive to loss, not just monitors, be included.

Note

A project to reorganize and update citywide policies and procedures began during audit fieldwork. The current numbering convention of the policies, previously termed Management Policies and Procedures (MPPs) may no longer agree to those in the body of this report. MPPs cited in the report were those in effect at the start of fieldwork, November 1, 2017.



Findings’ Conditions, Recommendations, and Management Responses

Training & Travel Documentation Noncompliance – Purchasing Cards

1. Training and travel paid for with City funds are required to have proper approval prior to the expenditure and appropriate supporting documents maintained. Standards are documented in Management Policies and Procedures (MPP) 405 and are applicable to “All elected officials, officers, and City of Reno employees.” Thirteen instances of noncompliance were noted for four separate exception types.
 - A. *City of Reno Training/Travel Request Form* was not completed for the employee’s training/travel on five occasions.
 - B. *City of Reno Training/Travel Request Form* was not completed for an elected official’s training/travel on four occasions.
 - C. The *City of Reno Training/Travel Expense Report* was not completed on one occasion.
 - D. The employee’s *City of Reno Training/Travel Request Form* was not maintained with the pCard purchase reconciliation documents on three occasions.

We recommend the *City of Reno Training/Travel Request Form* and *Expense Report* be completed, approved as required, and maintained for training/travel expenditures.

How will compliance will be measured, monitored, and assured?

The City of Reno Training/Travel Request Form and Expense Report will be completed, approved as required, and maintained for training/travel expenditures.

When will the measures be taken?

April 2018.

In addition, we recommend established policies for training and travel be communicated to applicable personnel to include pCard liaisons, management with signature approval authority, and pCard administrators.

How will compliance will be measured, monitored, and assured?

Established policies for training and travel will be communicated to applicable personnel to include pCard liaisons, management with signature approval authority, and pCard administrators.

When will the measures be taken?

April 2018.

Disallowed Travel Expenses Made

2. On four occasions the airfare travel purchases were for Business Select. Per MPP 405 Section VIII.C.1.a, “Air travel should be in coach class or its equivalent, except in exigent circumstances approved by the City Manager.” City funds may be expended in excess if established policies are not completed in full for expenditures.

We recommend airfare be purchased in compliance with established policies.

How will compliance will be measured, monitored, and assured?

Airfare will be purchased in compliance with established policies.

When will the measures be taken?

Upon Audit notification meeting (02/05/18).

Reason for Travel Expense Not Documented

3. On one occasion, supporting documentation for the business reason for travel was not available. Without appropriate documentation and approval of expenditures, City funds may be misappropriated and used for non-City related activities. With the current documents maintained, it is unknowable if the expense was an appropriate use of City funds. In addition documentation of the associated City related activity was not requested and obtained during the pCard monthly review and reconciliation.

We recommend internal controls detailed in citywide purchasing policies be followed to ensure the appropriateness of expenditures.

How will compliance will be measured, monitored, and assured?

Internal controls detailed in citywide purchasing policies will be followed to ensure the appropriateness of expenditures.

When will the measures be taken?

April 2018.

In addition, we recommend the expense be evaluated by management to determine if payment with City funds was appropriate.

How will compliance will be measured, monitored, and assured?

The expense will be evaluated by management to determine if payment with City funds was appropriate.

When will the measures be taken?

May 2018.

Specialty Expenses Not Documented per Policies

4. On six occasions, expenditures were noncompliant with charity/recognition event purchasing policies. Four of the six expenditures did not have an accompanying *City of Reno Request to Purchase a Sponsorship Table or Seat(s)* as required and the remaining two forms were incomplete.

We recommend the expenditures for charity events be documented, approved, and reviewed as required by established policies.

How will compliance will be measured, monitored, and assured?

Expenditures for charity events will be documented, approved, and reviewed as required by established policies.

When will the measures be taken?

April 2018.

In addition, we recommend the expenses identified be evaluated by management to determine if payment with City funds was appropriate.

How will compliance will be measured, monitored, and assured?

The expenses will be evaluated by management to determine if payment with City funds was appropriate.

When will the measures be taken?

May 2018.

Non-Profit Status Verification Not Documented

5. On one occasion, documentation of the eligibility of an organization as a non-profit entity was not available. MPP 211 Section VIII.a states, "Tables, seats and/or sponsorships to be purchased by the City of Reno must be to non-profit organizations." Without verification of the eligibility of vendors claiming non-profit status, City funds could be issued to unallowable organizations. Further inquiries after this transaction was flagged by audit indicated the entity is not a non-profit organization.

We recommend appropriate documentation of non-profit status for vendors claiming non-profit status receiving City funds be maintained with expenditure documentation.

How will compliance will be measured, monitored, and assured?

Appropriate documentation of non-profit status for vendors claiming non-profit status receiving City funds will be maintained with expenditure documentation.

When will the measures be taken?

April 2018.

In addition, we recommend the expense identified be evaluated by management to determine if payment with City funds was appropriate.

How will compliance will be measured, monitored, and assured?

The expenses will be evaluated by management to determine if payment with City funds was appropriate.

When will the measures be taken?

May 2018.

Donation Expense Lacks Documentation

6. On one occasion, a pCard was used for a transaction that was classified as a donation. A citywide policy does not exist for management donations. Documentation for the purchase does not specify if any membership or services are associated with the payment.

We recommend the City disallow this expense type or establish written policies for purchase type and the changes be communicated to applicable staff.

How will compliance will be measured, monitored, and assured?

The Office of the City Manager will review whether to disallow or establish written policies for purchase type and the changes will be communicated to applicable staff.

When will the measures be taken?

June 2018.

Unauthorized pCard Use

7. During a transitional time period of divisional management, pCard purchases were made by personnel other than the cardholder. Examination of the 50 transactions completed with the pCard indicated the personnel initiating the transactions were in the same division and many of the purchases were made online for recurring services. None of the purchases were flagged as improper.

The pCard identified was used for general, administrative departmental transactions and issued to a single employee; when that employee was in non-working status on administrative leave, the card continued to be used by department personnel. The policy for this particular situation is unclear. Allowing purchases initiated by personnel other than the assigned cardholder degrades the internal control environment which exists to identify if improper purchases are made with an issued pCard and the associated responsibility of any unallowable charges.

We recommend pCard purchases only be made by the cardholder, the employee that is ultimately responsible for card purchases.

How will compliance will be measured, monitored, and assured?

pCard purchases will only be made by the cardholder.

When will the measures be taken?

April 2018.

In addition, we recommend a process be developed by Human Resources (HR) to communicate with the Finance Department when employees are in non-working status such as administrative leave to allow Finance to manage pCards issued to those employees.

How will compliance will be measured, monitored, and assured?

A process will be developed by Human Resources (HR) to communicate with the Finance Department when employees are in non-working status to allow Finance to manage pCards issued to those employees.

When will the measures be taken?

June 2018.

Also, we recommend the responsibility to initiate this process be documented in a policy and communicated to HR.

How will compliance will be measured, monitored, and assured?

The responsibility to initiate this process will be documented in a policy and communicated to HR.

When will the measures be taken?

July 2018.

Approved Expense Not an Appropriate Use of City Funds

8. On one occasion, the purchase was not an appropriate use of City funds. The identified purchase was for exercise equipment and was approved by previous management. The supporting documentation includes a notation that the supplies were in support of the “wellness account” and does not specify how the supplies are necessary to conduct City business.

We recommend expenditures of City funds be clearly associated with applicable City business. If there is a non-apparent need for the purchase, we recommend a memo from the purchaser be included in the expense documentation for review during the approval process.

How will compliance will be measured, monitored, and assured?

Expenditures of City funds will be clearly associated with applicable City business. If there is a non-apparent need for the purchase, a memo from the purchaser will be included in the expense documentation for review during the approval process.

When will the measures be taken?

May 2018.

Expenses Approved by a Subordinate Employee

9. On two occasions, the purchase approval was not appropriate; signature approval was from a subordinate employee. Best business practices support procedures for a non-subordinate employee to approve expenditures. Procedures for approval of a City Manager’s direct purchases were not clearly identified in documented policies. Without an appropriate approval structure, City funds may be misappropriated.

We recommend expenditure approvals be obtained from non-subordinate employees for all purchases.

How will compliance will be measured, monitored, and assured?

Expenditure approvals will be obtained from non-subordinate employees for all purchases.

When will the measures be taken?

April 2018.

In addition, we recommend details pertaining to approvals for the City Manager’s direct pCard purchases be included in departmental policies and procedures.

How will compliance will be measured, monitored, and assured?

Not applicable - The City Manager does not hold a pCard and therefore has no direct purchases.

When will the measures be taken?

Not applicable.

Expense Details Were Not Maintained– Purchasing Card

10. On one occasion, an itemized receipt was not included in the supporting documentation for the expense. Without an itemized receipt for purchases, compliance with policies cannot be determined.

We recommend itemized receipts be required for purchases for this vendor type to ensure City policies are upheld.

How will compliance will be measured, monitored, and assured?

Itemized receipts will be required for purchases for this vendor type to ensure City policies are upheld.

When will the measures be taken?

April 2018.

In addition, we recommend the purchasing policies be updated to clearly state that itemized receipts are required for expense reconciliation, this be communicated to applicable staff, and be upheld during expense reviews going forward.

How will compliance will be measured, monitored, and assured?

The purchasing policies will be updated to clearly state that itemized receipts are required for expense reconciliation, this will be communicated to applicable staff, and will be upheld during expense reviews going forward.

When will the measures be taken?

July 2018.

Expense Applied to Inaccurate Account

11. On seven occasions, the expense was not applied to the correct account. Three of the transactions were booked to training/travel when they were for charitable events and four were booked to outside services but were for books. Improper classification of expenses degrades the value of financial reports and the ensuing analysis and decision-making.

We recommend greater care be taken when assigning accounts to expenditures during the pCard review process.

How will compliance will be measured, monitored, and assured?

Greater care will be taken when assigning accounts to expenditures during the pCard review process.

When will the measures be taken?

Ongoing.

Expense Maintenance Not Possible

12. The current method of processing pCard transactions does not allow for a commodity code to be included when the statement charges are entered into the financial system. On ten occasions, the purchase reviewed was an expense type that would benefit from monitoring such as charity events, donations, memberships, and food costs. Commodity codes function as sub-accounts to classify purchases and system reports can be generated for specific codes to determine purchasing trends and annual allocations. Without proper coding, efficient financial analysis cannot be completed for these types of purchases. Also, additional staff time may be needed for records requests, financial analysis, and audit review.

We recommend the methodology of processing pCard expenditures be reviewed and consideration be given to updating the process with software that allows for electronic approval, uploads, and storage.

When will the measures be taken?

When funds are identified for new system as recommended.

Cross-Divisional pCard Expense

13. On one occasion, a pCard expense occurred for a City expense separate from the cardholder and the cardholder's area of work. Cross-divisional purchases and account classifications from a pCard assigned to a specific employee degrades the internal control environment which exists to identify if improper purchases are made with a City issued pCard; this may increase the risk of misappropriation of City funds.

We recommend pCard purchases only be made by the cardholder, the employee that is ultimately responsible for card expenditures. If there is a non-apparent need for the purchase, we recommend a memo from the purchaser be included in the expense documentation for review.

How will compliance will be measured, monitored, and assured?

pCard purchases will only be made by the cardholder, the employee that is ultimately responsible for card expenditures. If there is a non-apparent need for the purchase, a memo from the purchaser will be included in the expense documentation for review.

When will the measures be taken?

May 2018.

Training & Travel Documentation Noncompliance – Expenditures

14. Training and travel paid for with City funds are required to have proper approval prior to the expenditure and appropriate supporting documents. In addition, reimbursement for travel must agree to the rates established by The U.S. General Services Administration (GSA). Five instances of noncompliance were noted for three separate exception types.
- A. *City of Reno Training/Travel Request Form* was completed after the employee's training/travel occurred on one occasion.
 - B. *City of Reno Training/Travel Request Form* was not completed for an employee's training/travel on one occasion.
 - C. The reimbursement amount including per diem was not calculated according to policies on two occasions.

We recommend the *City of Reno Training/Travel Request Form* and *Expense Report* be completed, approved as required, and maintained for training/travel expenditures.

How will compliance will be measured, monitored, and assured?

The City of Reno Training/Travel Request Form and Expense Report will be completed, approved as required, and maintained for training/travel expenditures.

When will the measures be taken?

April 2018.

In addition, we recommend established policies for training and travel be communicated to applicable personnel to include purchasing liaisons and management with signature approval authority.

How will compliance will be measured, monitored, and assured?

Established policies for training and travel will be communicated to applicable personnel to include purchasing liaisons and management with signature approval authority.

When will the measures be taken?

April 2018.

Reimbursement Issued Without Supporting Documentation

15. On one occasion, an employee submitted reimbursement for five individual purchases. The documented support included the receipts of four purchases only. The approval and review process did not identify the discrepancy and the claimed reimbursement was issued in full.

We recommend established policies for expense reimbursement be communicated to applicable personnel to include management review and approval standards as well as recordkeeping requirements.

How will compliance will be measured, monitored, and assured?

Established policies for expense reimbursement will be communicated to applicable personnel to include management review and approval standards as well as recordkeeping requirements.

When will the measures be taken?

April 2018.

Required Approval Not Obtained

16. On two occasions, documented approval was not completed per policy requirement. Both expenditures were for employee travel reimbursement related to job recruitment.

We recommend disbursements' approval be obtained and documented as required in established policies.

How will compliance will be measured, monitored, and assured?

Disbursements' approval will be obtained and documented as required in established policies.

When will the measures be taken?

April 2018.

Approval to Non-Authorized Account

17. On two occasions, management approving expenditure did not have approval for expenses on that account. In addition, this approval discrepancy was not noted during the review process conducted by Finance.

We recommend expenditures be approved by supervisory staff that are authorized for account expenses.

How will compliance will be measured, monitored, and assured?

Expenditures will be approved by supervisory staff that are authorized for account expenses.

When will the measures be taken?

April 2018.

In addition, we recommend established policies be communicated to reviewing Finance staff.

How will compliance will be measured, monitored, and assured?

Established policies will be communicated to reviewing Finance staff.

When will the measures be taken?

April 2018.

Expenditures Allocated to Inaccurate Account

18. On two occasions, the expense was allocated to an inaccurate account. Improper expense allocations degrade the budgeting process and may deplete accounts' budgeted funds for non-account related expenses.

We recommend greater care be taken when assigning accounts to expenditures during the approval process.

How will compliance will be measured, monitored, and assured?

Greater care will be taken when assigning accounts to expenditures during the approval process.

When will the measures be taken?

Ongoing.

Expense Details Not Maintained – Expenditures

19. On one occasion, the expense was not documented according to best business practices; the itemized receipt was not available for examination.

We recommend an itemized receipt be required for purchases to ensure City policies are upheld.

How will compliance will be measured, monitored, and assured?

An itemized receipt will be required for purchases to ensure City policies are upheld.

When will the measures be taken?

April 2018.

In addition, we recommend established policies for expense reimbursement be communicated to applicable personnel to include management with review and signature approval authority.

How will compliance will be measured, monitored, and assured?

Established policies for expense reimbursement will be communicated to applicable personnel to include management with review and signature approval authority.

When will the measures be taken?

April 2018.

Lack of Departmental Policies and Procedures

20. Departmental policies detailing internal controls and procedures for departmental functions do not exist. Documented policies support procedures that are conducted consistently and in an equitable manner. Documented internal control procedures, when in use, also assist with succession planning. In addition, conducting departmental operations without documented internal controls and process standards is not within management best practices.

We recommend procedures be developed, documented, and communicated to applicable staff.

How will compliance will be measured, monitored, and assured?

Procedures will be developed, documented, and communicated to applicable staff.

When will the measures be taken?

July 2018.

Lack of Internal Controls for Sensitive Equipment

21. On six occasions, the item did not include a bar code for tracking and was not included on a departmental equipment tracking document or the IT department's *IT Related Asset* inventory list. MPP 404, Capital Assets, Section VIII.A.4 states, in part, "Assets sensitive to loss will not be capitalized for financial reporting purposes, but will be tracked for internal control purposes and inventoried in accordance with the procedures set forth in this policy." Without a tracking methodology for equipment sensitive to loss, inventory and accountability for City equipment is not possible. Audit was informed by the Information Technology Assistant Director that a procedure to affix bar codes to each City-owned monitor is planned.

We recommend a sensitive equipment listing be maintained, the items identified be included, and periodic inventory of the equipment be conducted.

How will compliance will be measured, monitored, and assured?

A sensitive equipment listing will be maintained, the items identified be included, and periodic inventory of the equipment be conducted.

When will the measures be taken?

August 2018.

In addition, we recommend a clear process owner of the listing and inventory process be identified and items sensitive to loss, not just monitors, be included.

How will compliance will be measured, monitored, and assured?

A clear process owner of the listing and inventory process will be identified and items sensitive to loss, not just monitors, will be included.

When will the measures be taken?

August 2018.