



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 22, 2010

The Honorable City Council
Palo Alto, California

Finance Committee Recommendation to Accept the Audit of Citywide Cash Handling and Travel Expenses

At its meeting on September 21, 2011, the Finance Committee unanimously recommended to the City Council acceptance of the Auditor's Office Audit of Citywide Cash Handling and Travel Expenses.

Respectfully submitted,

A handwritten signature in cursive script that reads "Michael A. Edmonds".

Michael A. Edmonds
Acting City Auditor

Attachments:

- Attachment 1 Audit of Citywide Cash Handling and Travel Expenses.
- Attachment 2 September 21, 2010 Finance Committee Minutes (Excerpt)

Office of the City Auditor

**AUDIT OF CITYWIDE
CASH HANDLING AND
TRAVEL EXPENSES**



OFFICE OF THE CITY AUDITOR

SEPTEMBER 2010

City of Palo Alto

Office of the City Auditor

September 15, 2010

Honorable City Council
Attn: Finance Committee
Palo Alto, California

AUDIT OF CITYWIDE CASH HANDLING AND TRAVEL EXPENSES

In accordance with the Fiscal Year (FY) 2011 Annual Audit Work Plan, the City Auditor's Office has completed an Audit of the City's Cash Handling and Travel Expenses, primarily administered through the Administrative Services Department (ASD).

The audit contains two main findings:

Finding 1: Stronger controls are needed for cash handling operations. There are more than 20 locations throughout the City that process revenue. While ASD Revenue Collections processes most of the City's revenue, other locations processed more than \$14 million in FY 2010. Our analysis found that although cash handling internal controls generally exist at the locations, the effectiveness of these controls could be limited due to an outdated Citywide Cash Handling Policy, lack of training for staff assigned to cash handling duties, and the need for a more proactive oversight program. Our review of 13 selected locations identified three main areas of weakness: locations operating without approved procedures or sufficient oversight, insufficient safeguarding of revenue, and inadequate documentation or approval of certain types of transactions, such as voids and refunds. Exhibit 4 on page 13 shows the results of the site visits.

The audit recommends ASD update the Citywide Cash Handling Policy to address important cash handling internal controls. We also recommend that ASD work with City departments to immediately address the internal control weaknesses revealed through our site visits. In addition, the City should develop a more proactive cash handling oversight program including cash handling and internal controls training for all employees who handle revenue, and routine visits and surprise cash reviews based on ASD's risk assessment.

Finding 2: Increased oversight and coordination can improve the employee travel expense process. In recent years, travel and training expenses have declined from more than \$800,000 in FY 2008 to less than \$550,000 in FY 2010. The City's current travel expense process relies on five different payment methods, each with varying degrees of oversight: check disbursements, petty cash, professional development reimbursement, Executive Staff credit cards, and CAL-Card credit cards. Exhibit 7 on page 19 provides an oversight assessment of the travel payment methods. We identified exceptions with approximately 43% of the more than 525 travel and training transactions we reviewed. Exceptions included minor documentation and calculation errors, missing and incomplete travel forms, missing receipts, and other incorrect payments. In

our opinion, these exceptions are attributable to the City's uncoordinated travel expense payment process and lack of sufficient oversight to ensure all travel-related expenses are substantiated and appropriate.

The audit recommends coordinating and consolidating the travel expense payment process, including the incorporation of Executive Staff credit cards into the City's CAL-Card credit card program, and revising the City's travel policy. The audit also recommends reorganizing existing budgetary accounts related to travel and meetings to assist in tracking of taxable activities.

Other pertinent information related to fiscal oversight of travel. We also reviewed the City's processes for travel-related cash advances and internal controls to prevent double reimbursement since these fiscal areas were specifically noted during the Children's Theatre police investigation. Travel-related cash advances were identified as a weakness in prior audit work; however, our review found the City has improved its oversight of travel-related cash advances. While we identified only two instances that appear to contain double reimbursements of travel-related expenses, given the nature of the City's travel expense process, our ability to identify double reimbursements was limited. The audit recommends staff include additional controls to strengthen this area.

Our report includes a total of 11 recommendations to improve controls over cash handling and travel expenses. We thank the staff in ASD, the City Manager's Office, City Attorney's Office, City Clerk's Office, Community Services Department, Fire Department, Human Resources Department, Library Department, Planning and Community Environment Department, Police Department, Public Works Department, and Utilities Department for their time, information, and cooperation during the audit process.

I will present this report to the Finance Committee on September 21, 2010.

Respectfully submitted,



Lynda Flores Brouchoud

City Auditor

Audit Staff: Ian Hagerman, Senior Performance Auditor

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Introduction

In accordance with the Fiscal Year (FY) 2011 Annual Audit Work Plan, the City Auditor's Office has completed an Audit of Citywide Cash Handling and Travel Expenses.

We conducted this audit in accordance with generally accepted government auditing standards. Those 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.

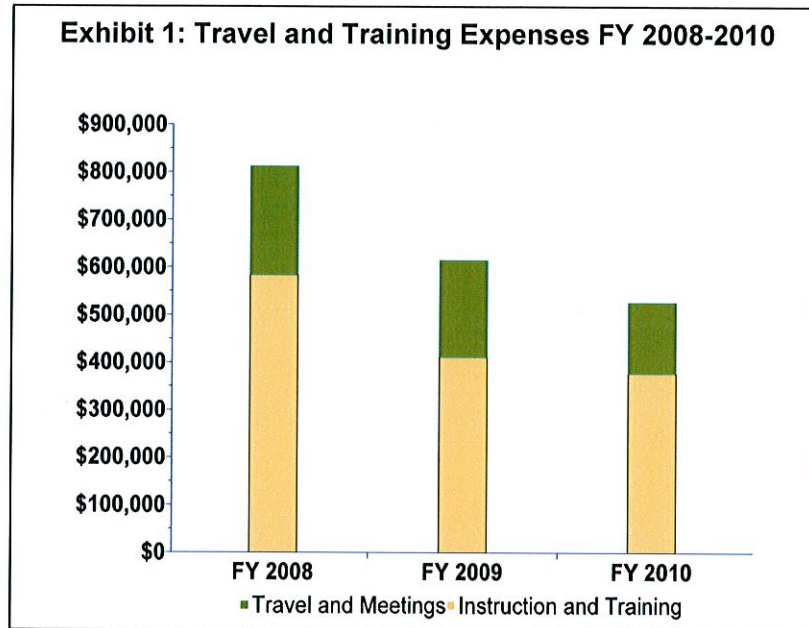
The City Auditor's Office would like to thank the staff of the Administrative Services Department (ASD), City Manager's Office, City Attorney's Office, City Clerk's Office, Community Services Department, Fire Department, Human Resources Department, Library Department, Planning and Community Environment Department, Police Department, Public Works Department, and Utilities Department for their time, information, and cooperation during the audit process.

Background

The City Council requested the City Auditor's Office review of Citywide cash handling and travel expenses, oversight procedures, and the history of audits on cash services. The City Council's request was preceded by a police investigation into a burglary at one of the City's cash handling locations (Palo Alto Children's Theatre) that prompted a number of questions regarding the City's fiscal processes and oversight pertaining to cash and travel expenses.

Travel Expenses

City Policy and Procedures 1-02/ASD (Travel Policy) provide guidance for travel-related activities such as professional meetings, conferences, and training sessions (see Attachment 1). According to the Travel Policy, payments for travel-related expenses may be in the form of either prepayments or reimbursement, including registration fees, food, lodging, transportation costs and incidental expenses. The Travel Policy requires employees to obtain pre-authorization prior to commitment or expenditure of any City funds for travel-related expenses. Additionally, employees are required to file a travel expense report within thirty business days after they return from the trip. In general, employee travel costs are related to professional training and development. The City's budget and financial systems contain two categories for travel and training expenses: "Travel and Meetings" and "Instruction and Training." In recent years, travel and training expenses have declined from more than \$800,000 in FY 2008 to less than \$550,000 in FY 2010.



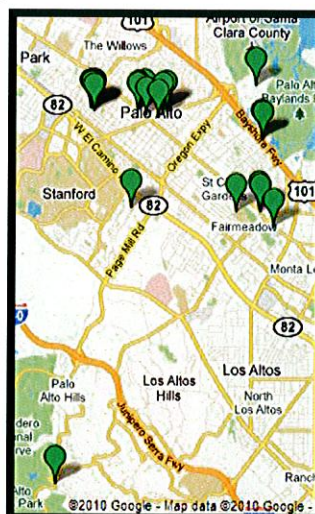
Source: City financial data

Cash Handling

City Policy and Procedures 1-03/ASD (Citywide Cash Handling Policy) establish requirements for cash handling (see Attachment 2). The City's Cash Handling Policy defines "cash" to include "currency, coin, checks, money orders, charge slips, passes, scrip, bank transfers and other like items of value." ASD's Treasury Division is responsible for ensuring secure, accurate, and prompt processing of City revenues. ASD Revenue Collections, within the Treasury Division, administers the Citywide Cash Handling Policy.

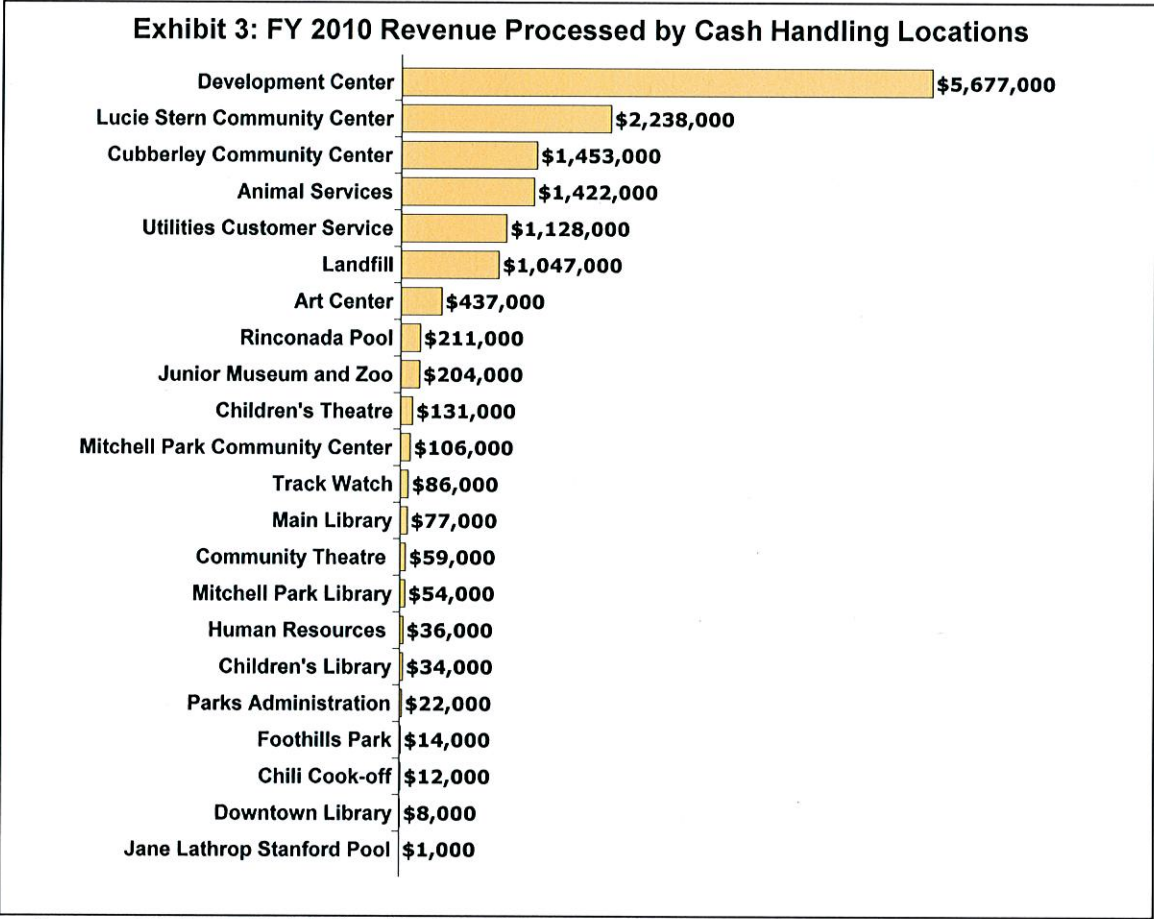
There are more than 20 locations throughout the City that process revenue for a variety of City services such as dumping fees at the Palo Alto Landfill, canoe rentals at Foothills Park, camp registration at Lucie Stern Community Center, and fines and fees at the City's libraries.

Exhibit 2: City of Palo Alto Cash Handling Locations



Source: ASD Revenue Collections and locations reported by departments

While ASD Revenue Collections processed most of the City's revenue, other locations processed more than \$14 million in FY 2010. The amount of revenue processed by other locations in the City is presented below.



Source: City financial data for FY 2010, Chili Cook-off occurred during the first month of FY 2011

Audit Scope and Methodology

The objective of this audit was to review Citywide cash handling and travel expenses, oversight procedures, and the City Auditor's history of audits on cash services. The scope of our review was limited to the areas noted below.

To assess internal controls over Citywide cash handling, we evaluated the Citywide Cash Handling Policy and conducted surprise cash reviews at 13 revenue collection locations. We selected sites to provide audit coverage of locations that had not been included in prior audits and to provide coverage across a variety of City departments. We assessed the operations of these locations, tested their controls over the receipt and disbursement of cash, and reviewed each location's procedures. We met each of the departments to review the site visit results. We also asked cash handling locations within the City to complete a survey questionnaire to provide additional information on internal controls. We also reviewed cash handling policies from other jurisdictions and best practices for cash and revenue collections including resources from the Association of Certified Fraud Examiners and *Internal Controls Guide* best practices.

ATTACHMENT 1

To assess travel expenses, we reviewed the supporting detail for more than 525 expenses incurred during fiscal years 2008-2010. We selected an initial sample of approximately 100 related transactions. The sample was selected to approximate the distribution of these charges by department. Based on our assessment of internal controls during our initial sample, we expanded testing to provide additional audit coverage. In addition to City records, we reviewed the travel policies from other jurisdictions. We also reviewed applicable guidance from the Internal Revenue Service (IRS), State of California Franchise Tax Board, and State of California Attorney General on employee business expense reimbursements.

We reviewed prior City Auditor's Office audit reports, dating back to 1993, related to travel expenses and cash handling. We also reviewed audits of cash handling operations, dating back to 2003, conducted by an independent certified public accounting firm as part of the City's external financial audit.

While we conducted our audit in accordance with generally accepted government auditing standards and have obtained reasonable assurance the evidence was sufficient to support the audit report findings and conclusions, the audit does not guarantee the discovery of abuse or illegal acts.

History of Prior Audit Findings Related to Cash Handling and Employee Travel

- **Audit of Recreation Division Cash Handling Procedures (1993)** – The City Auditor's Office conducted an audit of the Cash Handling Procedures of the Recreation Division of the Community Services Department. The audit found that internal controls and procedures for cash handling could be improved in the following areas: improving segregation of cash handling and accounting functions; improving controls over facility rental permits and receipts, and class registrations; and improving written procedures to ensure uniform compliance, assist in training, and to enhance overall department efficiency.
- **Audit of Travel Expenses (1998)** - The City Auditor's Office conducted a travel expense audit and found a significant lack of compliance with travel expense policies and procedures throughout the City. The audit identified 15 recommendations to improve the City's travel expense policies and procedures. The audit made the following specific recommendations: require the Accounts Payable supervisor to perform periodic spot checks of processed travel payments to ensure compliance with City policies and procedures; develop a monthly report reflecting all outstanding travel advances that have not been cleared within the prescribed time frame; and review the current account descriptions to clarify how travel and training expenses should be coded. The City Auditor's 2006 Report on the Status of Audit Recommendations noted these recommendations were completed or resolved.
- **External Financial Auditor Reviews** - The City's independent certified public accounting firm, Maze & Associates, conducted cash handling reviews in conjunction with their 2003, 2004, 2006, and 2007 external audits of the City's financial statements. Sites specifically reviewed included: Lucie Stern Community Center (2003); Golf Course (2004); Mitchell Park Library (2006); and the Building Development Center (2007). Most of the recommendations from these reviews focused on improving controls over cash security, improving cash handling procedures and improvements for cashiering systems. With the exception of the Golf Course, which is independently managed, the departments agreed to most of the recommendations from these reviews.
- **Audit of Library Operations (2007)** - The City Auditor's Office conducted an audit of the City's Library operations, which included several recommendations related to cash handling including: updating policies and procedures; periodically reviewing safe access authorization; daily cash reconciliations; and, periodic reviews of transactions involving fine and fee waivers. The City Auditor's 2009 Report on the Status of Audit Recommendations noted these recommendations were completed or resolved.

Other Pertinent Information – Additional Areas Related to Fiscal Oversight of Travel

The Children's Theatre police investigation included questions about the City's processing of fiscal transactions including travel payments and susceptibility to double reimbursements. We reviewed the City's processes for these areas and noted the following.

Travel cash advance process improved

The City's Travel Policy permits employees to receive limited travel advances for per diem meal allowances and ground transportation associated with approved travel. According to City records, through FY 2003, the City issued travel advances for more than \$7,000 per trip to two City employees at the Children's Theater. In addition, these advances were not coded to the appropriate travel advance account where they could be readily monitored by ASD Accounting staff. The City had prior internal control weaknesses with travel advances as reported in the City Auditor's 1998 Audit of Travel Expenses that found controls over travel advances were not sufficient to ensure timely settlement of travel advances.

However, our review found the City has improved its oversight of cash advances. According to ASD staff, the City currently issues travel advances only for per diem and ground transportation costs. While we did identify several advances that were not in compliance with City policy, ASD had proactively corrected those advances or had documented the necessity of the exception. According to ASD staff, all travel advances are coded to the appropriate account. In addition, the City also appears to have decreased its average time to clear advances from 131 days in FY 2008 to 53 days in FY 2010, which may have resulted from increased oversight.

Improve controls to prevent double reimbursements

The City's vulnerability to double reimbursements was a concern raised during the Children's Theatre investigation. Our audit testing of travel expenses within Finding 2 revealed this is a legitimate concern due to a lack of preventative controls and difficulty monitoring payments across various payment methods. The City's internal practices provide a number of options to reimburse employees for travel and training expenses. Although we identified only two instances that appear to contain double reimbursements within our sample and these amounted to more than \$800, given the nature of the City's travel payment processes, our ability to identify double reimbursements within the sample was limited. In one of the instances, an employee was reimbursed twice for a \$240 expense through the professional development reimbursement program. In the second instance, an employee was reimbursed for a \$575 registration fee through both the professional development reimbursement program and one of the City's credit card programs. In addition, the City has partnerships with non-profit support groups that may pay for some City expenses, according to staff.

In our opinion, the City does not have adequate controls in place to prevent double reimbursement, either from internal or external sources and therefore we have recommended that staff include additional controls to strengthen this area (see Recommendation #9).

Finding 1: Stronger controls are needed for cash handling

The City's cash handling system is decentralized and reliant upon each revenue collection location to implement its own procedures. While there is a Citywide Cash Handling Policy (Policy and Procedures 1-03 ASD) intended to support cash handling throughout the City, these procedures are outdated and rely on a Cash Handling Manual that could not be found. Overall, we found that while internal controls exist, the effectiveness of these controls could be limited due to an outdated Citywide Cash Handling Policy, lack of internal control training for staff assigned to cash handling duties, and need for a proactive oversight program.

While most locations adequately segregated duties, we identified some significant internal control weaknesses that should be addressed. These weaknesses fall into three categories: locations operating without procedures or sufficient oversight; insufficient safeguarding of revenue; and inadequate documentation or approval of certain types of transactions. We also identified locations that had incorrect cash amounts during our surprise cash reviews; although the differences were minor, both instances \$5, the locations were unaware of the causal factors and the internal control weaknesses should be addressed to prevent future occurrences.

We recommend that ASD update the Citywide Cash Handling Policy to address important cash handling internal controls. In addition, ASD should develop a more proactive cash handling oversight program including cash handling and internal controls training for all employees who handle revenue, and routine visits and surprise cash reviews for all revenue collection locations.

The City's current cash handling policy is outdated and reliant upon a Cash Handling Manual that could not be found

The City of Palo Alto has a decentralized cash handling oversight framework wherein each revenue collection location is responsible for implementing their own specific cash handling procedures, with the assistance of ASD Revenue Collections. While the City's decentralized model is consistent with many of the other jurisdictions reviewed, most other jurisdictions we reviewed have adopted minimum internal control standards for use by each department. Most of these jurisdictions prescribed standardized controls in three key areas: segregation of duties, safeguarding revenue, and documentation and approval of transactions.

Similar to other jurisdictions, the City also has a Citywide Cash Handling Policy intended to provide Citywide guidance (see Attachment 2). However, the policy was last updated in 1990 and contains outdated information. In addition, the policy incorporates references to a Cash Handling Manual to establish uniform procedures and controlled cash handling throughout the City. Although staff did have location-specific procedures for most revenue collection locations and located an Administrative Manual after completion of the audit, this manual did not contain all of oversight elements required in the Citywide Cash Handling Policy. In our opinion, ASD Revenue Collections should update the Citywide Cash Handling Policy and ensure all important internal control elements are included. At a minimum, these elements should address segregation of duties, safeguarding of revenue, and documentation and approval of all transactions.

RECOMMENDATION #1: ASD should update the Citywide Cash Handling policy and procedures to provide sufficient guidance on internal controls related to cash handling.

The City should improve training and implement a more proactive oversight program for cash handling operations

Training employees and communicating the importance of internal controls for cash handling operations are important elements of an effective internal control system. According to the City's Cash Handling Policy, employees are supposed to be "adequately train[ed] in the established procedures provided in the Cash Handling Manual" and also receive training prior to implementation of new procedures. Currently, the City does not appear to have a formal training program for employees who handle revenue. Staff responses to our cash handling survey and subsequent discussions with staff indicated training was limited to initial job assignments and location operations and did not include specific cash handling internal controls training. This can contribute to a lack of awareness and attention to internal controls over cash handling operations. In our opinion, the City should develop a training program for employees involved in cash handling.

According to staff, individual departments are responsible for implementing location-specific procedures whereas ASD Revenue Collections performs oversight of cash handling operations throughout the City. While ASD Revenue Collections assists departments with procedure development, resolving cash handling issues, and conducts periodic site visits, it has not developed a system to consistently train employees and systematically review all cash handling operations throughout the City. A proactive oversight program is an important control element because it may enable the City to more quickly identify internal control weaknesses and training needs. In addition, best practices indicate that surprise cash counts are an important component of effective and proactive cash handling oversight programs. Given the relatively high number of revenue locations dispersed throughout the City, ASD could implement this best practice by conducting periodic surprise cash reviews based on its assessment of risk among the various revenue collection locations.

RECOMMENDATION #2: ASD should improve its cash handling oversight program to include: 1) cash handling and internal controls training for employees who handle revenue and 2) routine visits and surprise cash reviews for revenue collection locations based on ASD's risk assessment.

Site visits revealed weaknesses that should be immediately addressed

We conducted site visits at 13 cash handling locations throughout the City and evaluated their internal controls in three primary areas:

- Segregation of duties – separate roles and responsibilities are assigned to ensure a single individual cannot process a transaction from initiation through reporting.
- Safeguarding revenue – physically securing access to revenue and timely processing of revenue.
- Proper documentation and approval of transactions – all transactions, including voids and refunds, are appropriately approved and documented.

If left unaddressed, weaknesses in these areas could potentially lead to loss or misappropriation of revenues.¹ A summary of each location's performance during our cash handling reviews is below; at the time of our review; one location had sufficient controls in all categories.

Exhibit 4: Assessment of Revenue Collection Internal Controls Based on Site Visits at 13 Locations

Location	Approximate Annual Amount of Transactions	Segregation of Duties	Safeguarding of Revenue	Proper Documentation and Approval of All Transactions
Animal Services	\$1,422,000	○	○	○
Children's Theatre	\$131,000	⊙	○	○
Chili Cook-off	\$12,000	⊙	⊙	○
Foothills Park	\$14,000	○	○	⊙
Human Resources	\$36,000	⊙	○	Not applicable
Junior Museum and Zoo	\$204,000	○	○	⊙
Landfill	\$1,047,000	⊙	○	⊙
Lucie Stern Community Center	\$2,238,000	⊙	⊙	○
Main Library	\$78,000	⊙	○	⊙
Revenue Collections	\$86,871,000 ²	⊙	⊙	⊙
Rinconada Pool	\$211,000	⊙	○	○
Track Watch	\$86,000	⊙	○	Not applicable
Utilities Customer Service	\$1,128,000	⊙	○	Not applicable

- ⊙ Met standards
- Improvement needed

Source: City Auditor analysis of revenue collection locations; annual amount of transactions based on City financial data

Some locations lacked approved cash handling procedures

During our review we identified three revenue collection locations that did not have approved cash handling procedures in place to provide guidance for the processing and receipt of funds:

- Two of the locations – the Human Resources Department, which processes COBRA payments for continued health benefit coverage for a limited period of time after leaving employment with the City, and the Utilities Department's Customer Service – are in the process of working with Revenue Collections to develop approved cash

¹ According to the American Institute of Certified Public Accountants, a material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

² Revenue Collections CORE cash receipting system, including Accounts Receivable.

handling procedures for their location and have made progress in improving their revenue collection operations during the course of the audit.

- The third location was the Police Department's Track Watch program through Project Safety Net. This program accepts donations to support the presence of a private security firm along the Caltrain rail line. The Police Department processes check donations and the City Manager's Office processes on-line donations through PayPal. According to staff, due to the expedited implementation of the program, they did not develop cash handling procedures, however, staff has agreed to process future check donations through ASD Revenue Collections.

In addition to the Track Watch program, the City also uses PayPal to process Utility payments and staff anticipates launching other alternative on-line payment methods. Since the Citywide Cash Handling Policy was last updated in 1990, on-line revenue collections have become more common. In our opinion, ASD Revenue Collections should develop procedures for processing these alternative payment methods to help ensure proper segregation of duties, safeguarding of revenue and proper authorization and approval of transactions.

Lastly, some locations in the City may periodically receive revenue for other programs through incorrect mail deliveries. We identified one location during the course of our audit that staff reported was regularly receiving mail intended for Revenue Collections. Revenue Collections staff reported that they have taken steps to prevent future payments from being incorrectly delivered. ASD Revenue Collections should monitor instances where revenues are incorrectly delivered in the City and help ensure only properly approved revenue collection locations are regularly receiving revenue. ASD should ensure their list of approved revenue collection locations is complete and updated and ensure these locations have adequate procedures to safeguard revenue.

Most site visit locations insufficiently safeguarded revenue

More than half of the locations we reviewed had deficiencies related to safeguarding revenue, and we identified minor cash discrepancies or deposit documentation errors at three locations. Revenue should always be kept in secure areas and access to cash should be limited. In addition, revenue should be restricted, recorded, and deposited in a timely manner. When revenue is not properly safeguarded, it is susceptible to loss or misappropriation.

The deficiencies we identified in our reviews included:

- Keeping revenue in unlocked and publicly accessible areas
- Sharing cash registers
- Inadequate restrictions to limit access to the safe
- Not recording revenue in a timely manner
- Not making deposits in a timely manner
- Delays in restrictively endorsing check payments (providing a stamp endorsement to restrict further negotiation of checks)
- Accepting blank checks (Landfill only)

Some of these issues may be a result of procedural weaknesses. For example, tracking safe access is not adequately addressed in the City's Cash Handling Policy, or in some of the location's procedures. During our review, some locations did not track which employees were given the safe access code or when, and one location confirmed they

had not changed their safe access code after employees left employment. According to staff, during the audit, this location re-issued their safe access code after Revenue Collections sent a reminder to do so.

Some of the issues are the result of locations not following their own department's procedures. For example, several locations routinely aggregated deposits or delayed submitting deposit documentation to ASD Accounting even though their procedures required them to deposit revenue within a day of receipt, and to forward deposit documentation to ASD Accounting within three business days.

In our opinion, ASD Revenue Collections should ensure the Citywide Cash Handling policy provides adequate policy guidance to safeguard revenue and also has an adequate enforcement mechanism to ensure compliance with the City policy.

Cash discrepancy and deposit slip errors

During our site visits, we conducted surprise reconciliations and cash counts and identified discrepancies at three locations. Two locations had incorrect cash balances when we performed a surprise count. Although the differences were minor, \$5 per count, the programs were unaware of the causal factors and we could not identify assurances that the existing system of internal controls would be able to prevent future occurrences. The third location processed an incorrect deposit slip. The location did not identify the discrepancy; however, ASD's Accounting group later identified and corrected the error.

Most locations appropriately segregate duties

Proper procedure for generating revenue requires the authorization and execution of transactions, and the recording and accounting of the related transactions. Duties are incompatible if a single person could conceal errors or misappropriations during the course of performing day-to-day activities. Three functions should be segregated to ensure that duties are effectively separated: authorization of transactions, custody or recording of assets, and accounting for the assets.

Most locations appropriately segregated duties; however we identified three locations where an employee could perform all three incompatible functions. ASD Revenue Collections should ensure that the Citywide Cash Handling Policy addresses segregation of duties to ensure that one person does not perform incompatible functions. If there are operational constraints that would genuinely inhibit the ability of the location to properly segregate duties, ASD Revenue Collections should ensure that compensating controls are instituted.

Several locations lacked adequate procedures for documentation and approval of certain types of transactions

While some locations had adequate procedures for documentation and approval of transactions, we identified several locations with deficiencies in this area. In particular, two locations did not provide receipts for all types of transactions. Receipts are an important tool to acknowledge the transaction between the buyer and the seller and to help ensure transactions are accurately recorded. In addition, some locations did not properly document or review refunds and voided transactions. Refunds and voided transactions should be approved by a supervisor or another employee and adequately documented to ensure the refund is appropriate and allowable. Without proper approval

ATTACHMENT 1

or documentation, the City cannot adequately ensure refunds and voids are appropriate. In our opinion, ASD should ensure the Citywide Cash Handling Policy adequately addresses proper documentation and approval for all transactions, including issuing receipts for all transactions, and ensuring that refunds and voids are properly documented and approved.

RECOMMENDATION #3: ASD should develop procedures for processing on-line revenue (e.g. PayPal) to help ensure proper segregation of duties, safeguarding of revenue and proper authorization and approval of transactions.

RECOMMENDATION #4: ASD should:

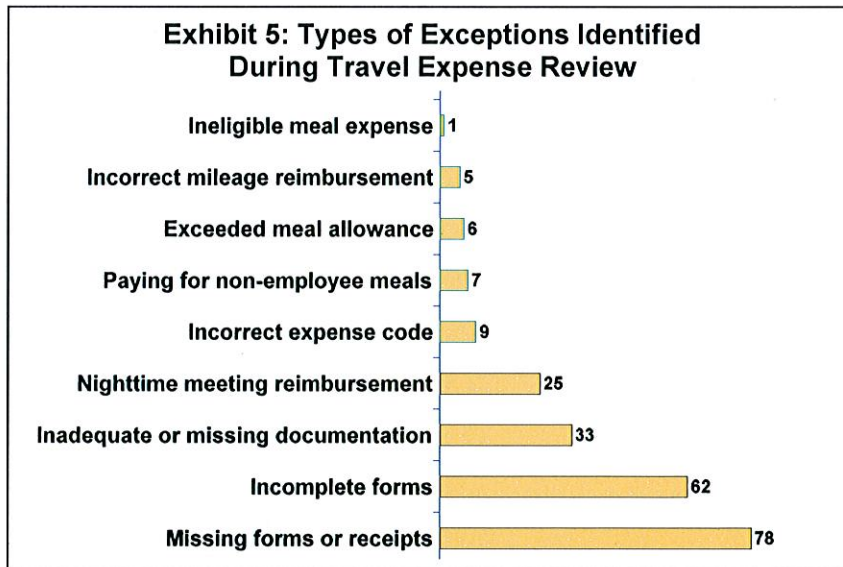
- Work with the departments to immediately address weaknesses noted in the areas of safeguarding revenue, segregation of duties, and proper documentation and approval of certain types of transactions (e.g. voided transactions and issuance of receipts).
- Ensure their list of approved revenue collection locations is complete and updated, and these locations have adequate procedures to safeguard revenue.

Finding 2: Increased oversight and coordination can improve the employee travel expense process

We identified exceptions with approximately 43% of the more than 525 travel and training transactions we reviewed. Exceptions included minor documentation and calculation errors, missing and incomplete travel forms, missing receipts, and other incorrect payments. In our opinion, these exceptions are attributable to the City's decentralized and uncoordinated travel expense payment process and a lack of sufficient oversight to ensure all travel and training expenses are substantiated and appropriate. Accordingly, the oversight of travel expenses could be improved by coordinating and consolidating the travel expense payment process, including the incorporation of Executive Staff credit cards into the City's CAL-Card credit card program, and revising the City's Travel Policy.

Oversight of employee travel expenses can be improved

The City has travel policies and procedures to establish proper controls over travel and training expense payments³ (see Attachment 1). We reviewed the supporting detail for more than 525 travel and training expenses processed from July 2007 through June 2010 with a total value of more than \$225,000. In evaluating compliance, we reviewed the transactions for appropriate supporting documentation and compliance with the City's policies and applicable regulations. Based on this review, we identified exceptions in approximately 43% of transactions. Exceptions included minor documentation and calculation errors, missing and incomplete travel forms, missing receipts, and other incorrect payments.



Source: City Auditor analysis of travel-related expenses

Our review identified five different payment and reimbursement methods available to City employees to pay for travel-related expenses: 1) check disbursement; 2) petty cash;

³ In general, employee travel costs were related to professional training and development. The City's budget and financial systems contain two categories for travel and training expenses: "Travel and Meetings" and "Instruction and Training." The City's process typically allocates travel and training expenses between these two accounts, with the exception of training costs related to professional development benefits. See page 26 of this report for further discussion of the City's coding of travel expenses.

3) professional development; 4) CAL-Card credit card; and 5) Executive Staff credit card. Exhibit 6 provides a summary of these methods and usage in FY 2010.

Exhibit 6: Summary of Five Different Travel Payment Methods Used in FY 2010

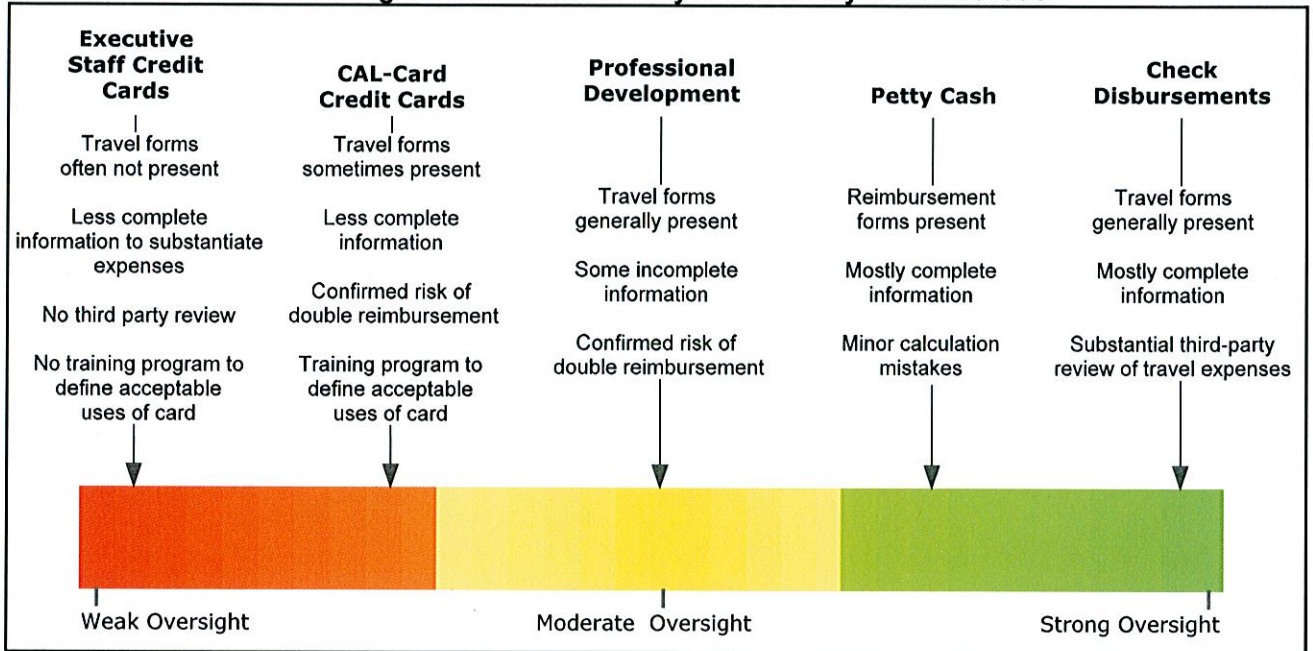
Payment Method	Description of Travel Expense Processed	Responsible Business Unit	Approximate Annual Travel-related Transactions	Approximate Amount of Annual Travel-related Transactions
Check Disbursement	Check payment to reimburse an employee for travel and training	ASD Accounts Payable	435	\$160,000
Petty Cash	One-day travel under \$150	ASD Revenue Collections	1,150	\$50,000
Professional Development	Payment on employee paycheck to pay for travel and training associated with professional development	Human Resources	35	\$20,000
CAL-Card Credit Card	Employees use City-issued credit card to pay for travel expenses	ASD Purchasing	875	\$220,000
Executive Staff (ES) Credit Card	Senior staff members use City-issued ES credit card to pay for travel expenses	None ⁴	120	\$18,000

Source: City Auditor analysis of travel-related expenses; City financial data

Each travel payment method should follow best practices to ensure appropriate use of travel funds. Specifically, best practices require completed travel forms to substantiate the cost, authorization, business purpose of the expense, and evidence of review. Our review found varying levels of oversight and internal control within the five different payment methods, as shown in Exhibit 7.

⁴ According to staff, while ASD Accounts Payable processes payments for Executive Staff credit cards, there is no formal oversight mechanism for this payment method.

Exhibit 7: Oversight Assessment of City’s Travel Payment Methods



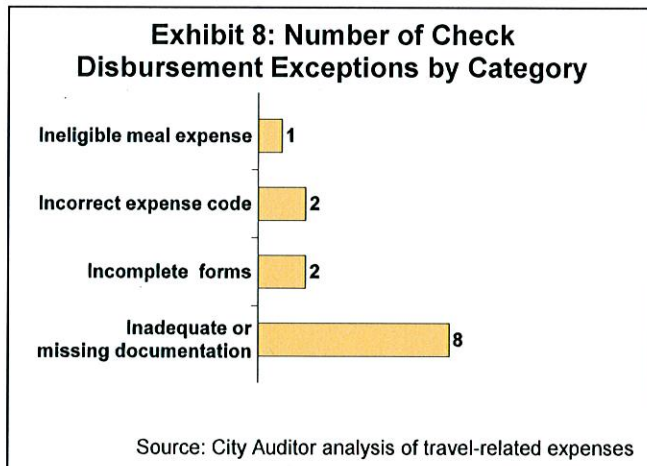
Source: City Auditor analysis of travel-related expenses

In general, check disbursement, petty cash, and professional development demonstrated stronger internal control over travel payments. More specifically, our review identified the following results for each of the payment methods.

Check Disbursements

We identified exceptions with approximately 26% (13 of 50 transactions) of the check disbursements we reviewed. Most of the check disbursement exceptions were relatively minor and related to incomplete documentation.

In comparison to other travel payments methods, we found substantial evidence of review for check disbursements. According to ASD staff, the Accounts Payable Supervisor conducts detailed reviews of all travel-related check disbursements prior to payment. However, ASD does not perform this level of review with other payment methods. In our opinion, it would be more effective and less time-intensive for ASD staff to conduct spot checks of all travel payments. This review would entail a review for appropriateness and compliance with City policies, reviewing for double reimbursements, and identifying whether any travel expenses are not supported by appropriate forms.

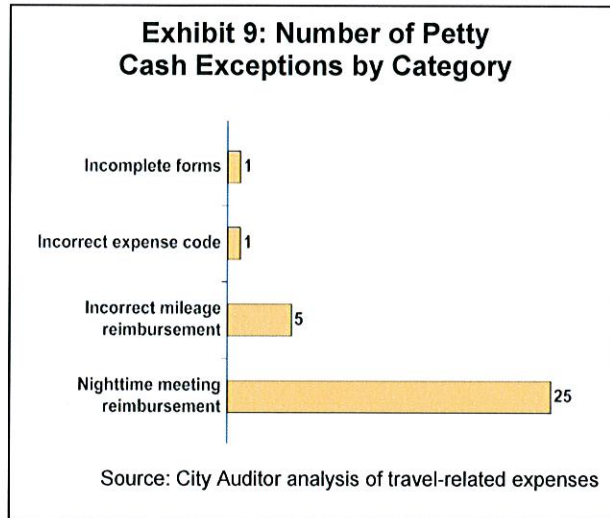


Source: City Auditor analysis of travel-related expenses

Petty Cash Reimbursements

We identified exceptions with approximately 28% (32 of 116 transactions) of the petty cash reimbursements we reviewed. Most of the petty cash exceptions were minor.

For example: an employee received a reimbursement without signing the petty cash reimbursement form; an employee was over reimbursed for mileage even though documentation of the correct amount was included in the reimbursement request. and an employee did not properly deduct their regular work commute from mileage reimbursement, as required by City policy.

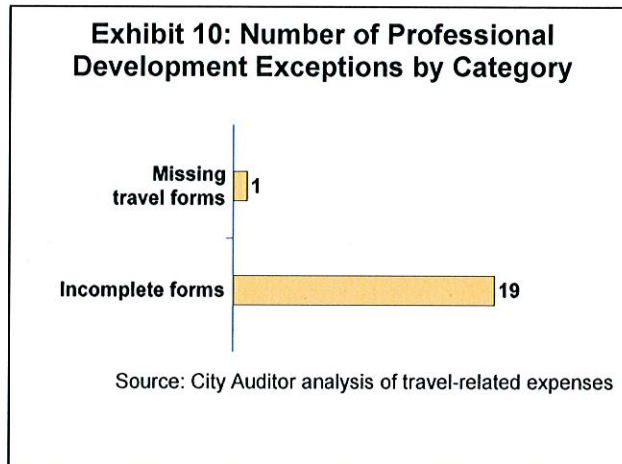


However, the majority of petty cash reimbursement exceptions were related to a meal reimbursement benefit available to management and professional employees who attended a nighttime meeting as part of their job responsibilities. Departments usually paid for these expenses from their "Travel and Meetings" budget. The City's Travel Policy and Management and Professional Compensation Plan limit these reimbursements to *actual* expenses up to \$20. 78% of the petty cash exceptions were related to this benefit, mostly because employees were reimbursed at the flat rate of \$20 without receipts to substantiate actual costs. We also identified one ineligible employee that received the benefit for attendance at three nighttime meetings.

In addition, we found the City was not properly reporting nighttime meeting reimbursements for income tax purposes. Internal Revenue Service (IRS) guidelines stipulate that reimbursements for meal expenses incurred while working late should be included as wages on the employee Form W-2s; however, the City does not report these reimbursements as taxable wages. We reviewed the travel policies from some nearby jurisdictions (Mountain View, Sunnyvale, and Fremont) that also hold nighttime meetings, and noted they do not offer this benefit to employees. In our opinion, ASD should review the nighttime meeting reimbursement policy. If ASD decides to maintain this practice, ASD should report the amounts as income on employee W-2 forms to conform to IRS requirements. In addition, ASD should review other types of meal expense to ensure any reportable amounts are included as wages on employee W-2 forms.

Professional Development Reimbursements

We identified exceptions with 57% (20 of 35) of the professional development reimbursements we reviewed. Most of the professional development exceptions were related to incomplete travel forms. In addition, we identified two double reimbursements within the sample. Professional development is limited to \$1,500 per employee each fiscal year and therefore, the exposure for potential double reimbursements involving this payment method would be limited.



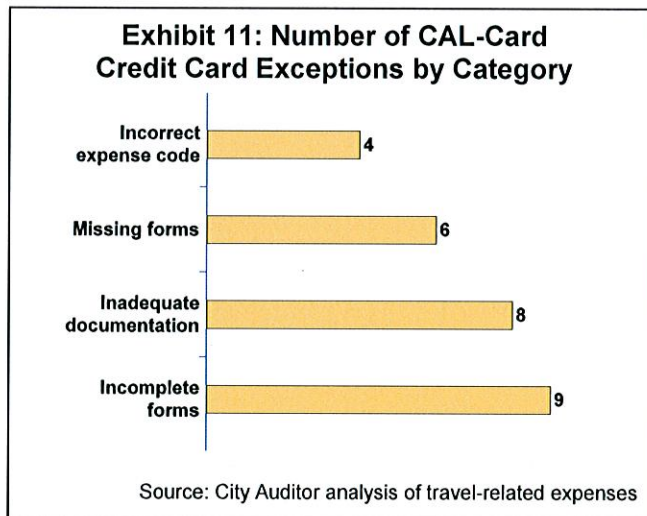
Credit Card Payments

The City has two separate credit card programs:

- 1) CAL-Cards (also referred to as purchasing cards) available to employees for City-business. There are approximately 200 CAL-Card users.
- 2) Executive Staff Credit Cards issued to department heads and senior staff. There are 12 cardholders.

CAL-Card Credit Cards

We identified exceptions with approximately 68% (27 of 40) of CAL-Card purchases we reviewed. Most of the CAL-Card exceptions were related to incomplete travel forms or inadequate documentation. We also identified a transaction which appears to be a double reimbursement for an expense that was also reimbursed through professional development



The CAL-Card has three layers of oversight: Approving officials at the department level review expenses for appropriateness and adequate supporting documentation; ASD Accounts Payable staff review expenses for correct sales tax charges, supporting documentation, and account coding; and, ASD Purchasing staff review expenses for compliance with CAL-Card program guidelines.

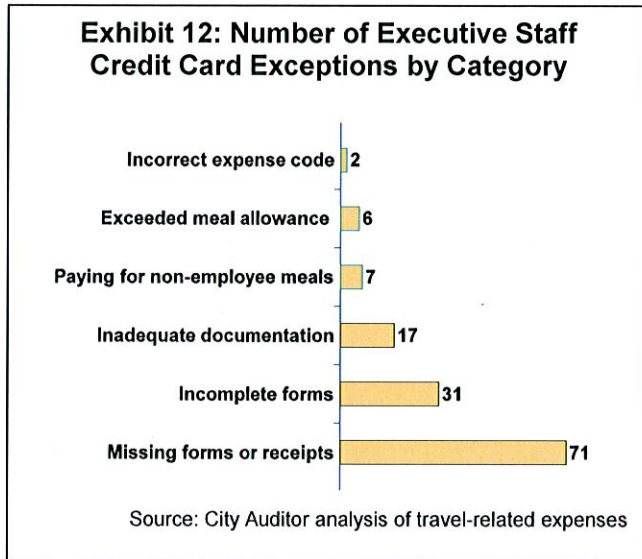
We also identified areas that will be reviewed in further detail through the City Auditor's recently initiated Audit of Purchasing Card Transactions.

Executive Staff Credit Cards

We identified exceptions with approximately 47% (134 of 286) of Executive Staff credit card purchases we reviewed. Although the percent of exceptions was lower than the CAL-Card payment method, the type of exceptions indicated weaker oversight.

For example, our review of Executive Staff credit card purchases found approximately 25% of transactions were missing travel forms or receipts. This lack of documentation makes

it difficult to ensure the expenses were properly authorized and in compliance with City policies.



We also identified seven instances in which it appears employees used the Executive Staff credit cards to pay for meals for individuals that were not employed by the City. According to the state-mandated ethics training provided to City employees, the California Attorney General has concluded that payment of expenses for other people’s meals, even when the purpose of the meal is to discuss agency business, is not a necessary expense and could be a gift of public resources. Although the amount of the non-employee meals is not significant, the public perception of paying for non-employee meals can be a concern.

The City’s policies and procedures do not include restrictions on the gift of public resources. The City Auditor’s 2008 Audit of Employee Ethics Policies recommended the City develop a section on the intranet site to provide links for employees to access policies, procedures, laws and regulations pertaining to conflicts of interest and ethics. The City Manager’s Office implemented this intranet site, called the “Ethics Center.” In our opinion, the City Manager’s Office should add guidance on the gift of public resources to the intranet site.

Our review found that Executive Staff credit cards lacked important oversight elements including employee training and policies and procedures. While ASD performs reviews of CAL-Card program transactions, Executive Staff credit cards are not similarly reviewed. In addition, ASD developed a CAL-Card handbook to outline the terms and uses for the CAL-Card program, however the Executive Staff credit card program does not have this important internal control.

In our opinion, the City’s existing CAL-Card program can meet the operational needs of Executive Staff credit card users. In particular, Executive Staff credit card users primarily utilize their cards for making travel arrangements and their activity would be compatible with the existing CAL-Card program. In addition, the CAL-Card program does not restrict purchases, such as emergency supplies, that an Executive Staff credit card user may need. In addition, the CAL-Card program offers activity-based

rebates to the City and although small, the Executive Staff credit cards do not offer this rebate and the City pays a nominal annual fee for these cards. In our opinion, given the lack of controls over Executive Staff credit card purchases and the existence of an adequate substitute program, the City should consolidate the Executive Staff credit card program into the existing CAL-Card program.

Based on the findings noted above, we recommend the following:

RECOMMENDATION #5: ASD should ensure all travel payments are adequately and uniformly documented with appropriate oversight by: 1) requiring consistent documentation of travel expenses, including: receipts or other supporting documentation, appropriate travel forms, and explanation of the business purpose of expense, 2) performing spot checks of travel expenses.

RECOMMENDATION #6: ASD should review the nighttime meeting reimbursement policy. If the City decides to maintain this practice, ASD should report the amounts as income on employee Form W-2s to conform to IRS requirements. In addition, ASD should review other types of meal expense to ensure any reportable amounts are included on employee Form W-2s.

RECOMMENDATION #7: ASD should consolidate the Executive Staff credit card program into the existing CAL-Card program.

RECOMMENDATION #8: The City Manager's Office should include additional guidance to prevent gifts of public resources on the City's Ethics Center intranet site.

The City should consolidate and coordinate existing travel payment processes

As noted previously, under the current system, City employees can be reimbursed for travel-related expenses through five different payment methods involving multiple business units in the City. Our review found the lack of coordination among these business areas can leave the City vulnerable to incorrect payments and double reimbursements. In our opinion, the City could consolidate and coordinate existing processes to improve oversight.

Lack of coordination has led to susceptibility to double reimbursement

The City's travel process could be consolidated and better coordinated to realize efficiencies. Depending on the number of payment methods, the City's current process requires employees to submit duplicate copies of travel forms to the respective business unit. For example, as shown in Exhibit 6, ASD Accounts Payable reviews the travel forms for check disbursements; ASD Revenue Collections reviews petty cash reimbursement forms; Human Resources reviews the travel forms for professional development; and ASD Purchasing will accept the travel forms for purchasing cards but does not review the travel forms for appropriateness or completion. No business unit reviews the Executive Staff credit card documentation for appropriateness.

According to the City's current policies, employees should submit completed travel forms to ASD Accounting for review. In practice, employees have generally sent travel forms to the business unit processing each type of travel payment. Depending on the payment method, employees may be required to submit multiple copies of reimbursement forms and supporting documentation if they are seeking reimbursement from more than one

ATTACHMENT 1

source. For example, if an employee travels to an out-of-state professional development conference and purchases their plane ticket on a CAL-Card, uses professional development funds to pay for the conference registration, and requests a check reimbursement when they return for their incidental expenses, their reimbursement request would involve multiple supporting documents, and review by multiple business units. This process can be time consuming and cumbersome.

Even with these multiple copies, because the review is not coordinated among the payment methods, there is susceptibility to double reimbursement. For example, we identified an instance where the same \$575 expense was paid for by two different payment methods. The expense was originally charged and paid on a CAL-Card. The employee later included this expense in a professional development reimbursement request from the Human Resources department. In another example, an employee was reimbursed for the same expense in two different professional development reimbursements. In our opinion, the existing process makes it difficult to prevent and identify double reimbursements with the existing business processes. While our testing did identify these two instances of double reimbursement, given the nature of the City's travel payment processes and missing documentation, our ability to identify double reimbursements within the sample was limited.

In our opinion, the City should update its forms for the travel expense, professional development and petty cash processes to require employees to certify that they have not received reimbursement from any other source for the requested expense. In addition, we recommend that ASD Accounts Payable incorporate a review for double reimbursements into their existing review of travel expense reimbursements.

Specifically, ASD should adopt the following changes to the travel expense process:

- Update the Travel Policy and integrate pre-travel authorization and the travel expense report into one travel report form to document supervisory approval, business purpose of the trip, estimated expenses, forms of payment, an accounting of actual expenses, and requirement for employees to certify they did not receive reimbursement from any other source.
- Develop a centralized system to file all travel expense reports. The City's Travel Policy requires employees to file a travel expense report with the Accounting Division of ASD when they return from a trip. However, this requirement has not been consistently followed. In our opinion, oversight of travel expenses could be improved if travel expense forms are centrally filed in ASD Accounts Payable and the City required employees to submit one travel expense report with all supporting documentation and appropriate forms upon return. Approving officials within each department should ensure any travel-related expenses, regardless of payment method, are pre-approved.
- Alternatively, ASD could consider activating the existing travel management function within the SAP system to allow for integrated management of all travel activities. The SAP travel management function links phases of travel management – from the initial request, through planning and submission and settlement of travel expenses – into one integrated process. It also offers electronic travel expense forms as part of the SAP employee self-service functions. To offer optical archiving of paper receipts, the City would need to implement a document management system. ASD could consider the SAP travel management function in conjunction with the City's current development of a document management system.

RECOMMENDATION #9: ASD should coordinate and improve the travel payment process through the following:

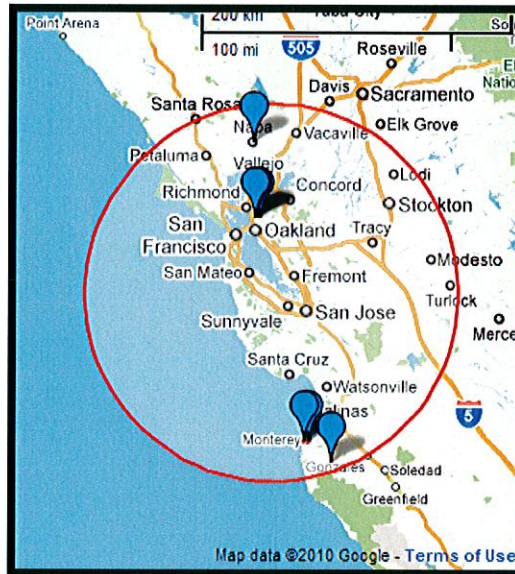
- Update the City's Travel Policy and integrate the pre-travel authorization form and travel expense report into one travel report form to document supervisory approval, business purpose of the trip, an accounting of actual expenses, and requirement for employees to certify they did not receive reimbursement from any other source.
- Implement the City's policy requirement to file travel expense forms with ASD Accounts Payable.
- Alternately, ASD could consider activating the travel expense management capabilities of SAP.

The City should revise the Travel Policy to ensure employees select economic travel methods

Improved oversight and better policies may have prevented some travel expenses and resulted in more economical travel. Specifically, our review identified the following examples of travel expenses that could have been reduced or avoided:

- An employee selected a more expensive hotel when six less expensive options, including one nearly adjacent to the conference, were listed in the conference materials. Staying at the less expensive hotel would have saved nearly 25% of the lodging expense. While the City's Travel Policy requires employees to request government rates, it does not require employees to choose the most economical travel options.
- An employee began travelling and rented a car for two days prior to the start of a conference and kept the rental car for three days after the conference. The employee partially reimbursed the City for the car rental, but it appears the reimbursement was not calculated correctly. The extended stay and car rental cost the City approximately \$250. Although the City's Travel Policy does not specifically limit extended travel or require documentation for exceptions, other jurisdictions restrict travel to the day before or after the event.
- Employees incurred lodging expenses to attend training less than 75 miles from City Hall, as shown in the following exhibit.

Exhibit 13: Examples of City Paid Lodging Expenses for Training Held Within 75 Mile Radius of Palo Alto City Hall



Source: City Auditor analysis of travel-related expenses

The City's current Travel Policy does not address the use of hotels for local travel. However, several other local government jurisdictions restrict the use of hotels in nearby cities. For example, the City of San Jose restricts the use of City funds for hotel stays located within 75 miles from City Hall or the traveler's residence, unless approved prior to departure. In our opinion, the City's Travel Policy should be updated with similar language to ensure more economical travel.

In our opinion, the City's Travel Policy should be updated to help ensure employees select economical means of travel and to properly authorize extended stays.

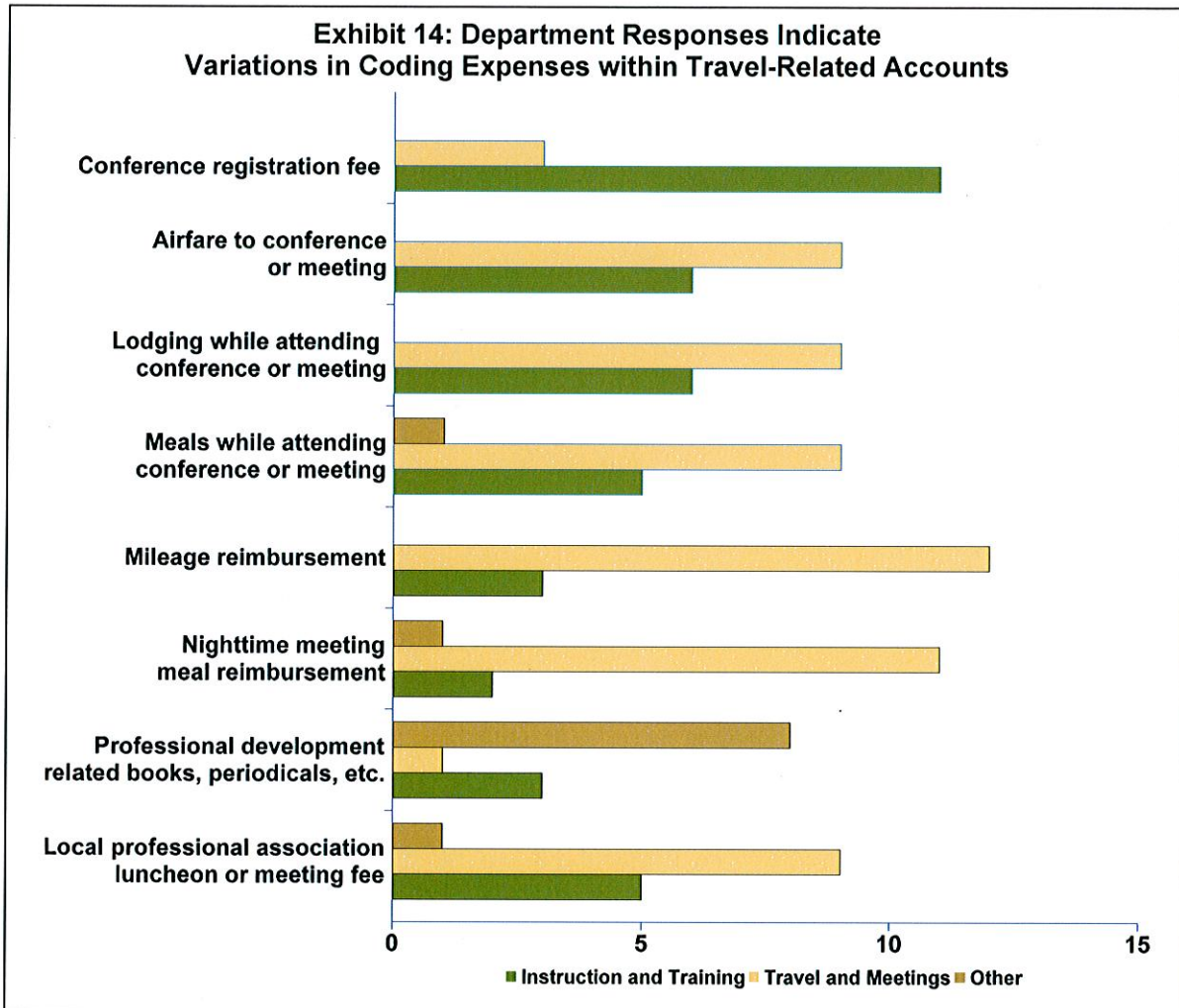
RECOMMENDATION #10: ASD should revise the City's Travel Policy to help ensure employees select the most economical means of travel, including restricting the use of hotels during local travel and authorization for extended travel times.

The City should reorganize existing budgetary accounts related to travel and meetings to assist in tracking of taxable activities

Coding expenses within appropriate budgetary accounts strengthens the budget process role in providing oversight, transparency, and allocation of resources. The City's budget and financial systems contain two categories for travel and training expenses: "Travel and Meetings" and "Instruction and Training." We reviewed the budgetary accounts related to the City's travel expenses and found that departments use inconsistent coding practices. In our opinion, the inconsistent coding and existing account structure make it more difficult to accurately track travel-related expenses and also hinder staff's ability to separate out meeting expenses for tax reporting purposes.

According to staff, City departments are given discretion on how they code travel and training expenses. During our audit, we asked City departments to report how they code a variety of travel-related expenses, and noted variations, as shown in the following

exhibit. As a result, the “Travel and Meetings” account and the “Instruction and Training” account may both contain a mixture of different types of expenses that can also be charged to other accounts.



Source: City department responses to travel-expense coding survey

In addition, as shown in the above Exhibit 14, meeting expenses that may not be related to travel are charged to these and other accounts. For example, departments reported they charged nighttime meeting meal reimbursements (related to an employee benefit and not travel or training) to at least three different accounts. As noted on page 20 of this report, this benefit should be included as taxable wages on employee W-2 forms. However, in our opinion, with the current account structure, it would be very difficult for ASD staff to track and ensure these expenses are included on each employee’s W-2 form.

In addition to the variation in expense coding, five of the City’s departments stated they may not always code expenses consistently. Several departments reported that budgetary issues were a factor in charging to other accounts; however, this practice could result in departments circumventing the City’s intended budgetary limits for “Travel and Meetings” and “Instruction and Training.”

ATTACHMENT 1

We should also note in 1998, the City Auditor's Office issued a report on the Audit of Travel Expenses and recommended that ASD develop a list of appropriate expenses for each budgetary account to ensure travel-related charges are coded consistently and appropriately. During subsequent follow-up reports in 2001, ASD staff reported they had reviewed coding of expenses and determined that the majority of travel expenses were properly coded with only minor exceptions. However, ASD staff also reported that departments were allowed flexibility in determining how to code expenses.

In our opinion, ASD should reorganize the existing budgetary travel-related accounts into a "Travel and Training" account for professional development expenses and a "Meetings" account for nighttime and other non-professional development meetings. This would assist ASD in tracking taxable forms of reimbursement, such as nighttime meeting meal expenses, and also facilitate the oversight of travel expenses.

RECOMMENDATION #11: ASD should reorganize the existing budgetary travel-related accounts into a "Travel and Training" account for professional development and a "Meetings" account for tracking taxable forms of reimbursement, such as nighttime meeting meal expenses.

CONCLUSION

With revenue processed at over 20 cash handling locations, it is important for the City to implement strong cash handling controls. Improvements can be made to strengthen controls especially in the areas of safeguarding revenue and approving and documenting all types of transactions. In addition, the City's Cash Handling policy should be updated to ensure important internal control elements are adequately addressed.

Increased coordination and oversight can also improve the employee travel expense process. The City currently has five different payment methods to process travel payments, with varying degrees of oversight. The audit recommends coordinating and consolidating the travel expense payment process, including the incorporation of Executive Staff credit cards into the City's CAL-Card credit card program, and revising the City's travel policy. The audit also recommends reorganizing existing budgetary accounts related to travel and meetings to assist in tracking of taxable activities.

RECOMMENDATIONS

RECOMMENDATION #1

ASD should update the Citywide Cash Handling policy and procedures to provide sufficient guidance on internal controls related to cash handling.

RECOMMENDATION #2

ASD should improve its cash handling oversight program to include: 1) cash handling and internal controls training for employees who handle revenue and 2) routine visits and surprise cash reviews for revenue collection locations based on ASD's risk assessment.

RECOMMENDATION #3

ASD should develop procedures for processing on-line revenue (e.g. PayPal) to help ensure proper segregation of duties, safeguarding of revenue and proper authorization and approval of transactions.

RECOMMENDATION #4

ASD should:

- Work with the departments to immediately address weaknesses noted in the areas of safeguarding revenue, segregation of duties, and proper documentation and approval of certain types of transactions (e.g. voided transactions and issuance of receipts).
- Ensure their list of approved revenue collection locations is complete and updated, and these locations have adequate procedures to safeguard revenue.

RECOMMENDATION #5

ASD should ensure all travel payments are adequately and uniformly documented with appropriate oversight by: 1) requiring consistent documentation of travel expenses, including: receipts or other supporting documentation, appropriate travel forms, and explanation of the business purpose of expense, 2) performing spot checks of travel expenses.

RECOMMENDATION #6

ASD should review the nighttime meeting reimbursement policy. If the City decides to maintain this practice, ASD should report the amounts as income on employee Form W-2s to conform to IRS requirements. In addition, ASD should review other types of meal expense to ensure any reportable amounts are included on employee Form W-2s.

RECOMMENDATION #7

ASD should consolidate the Executive Staff credit card program into the existing CAL-Card program.

RECOMMENDATION #8

The City Manager's Office should include additional guidance to prevent gifts of public resources on the City's Ethics Center intranet site.

RECOMMENDATION #9

ASD should coordinate and improve the travel payment process through the following:

- Update the City's Travel Policy and integrate the pre-travel authorization form and travel expense report into one travel report form to document supervisory approval, business purpose of the trip, an accounting of actual expenses, and requirement for employees to certify they did not receive reimbursement from any other source.
- Implement the City's policy requirement to file travel expense forms with ASD Accounts Payable.
- Alternately, ASD could consider activating the travel expense management capabilities of SAP.

RECOMMENDATION #10

ASD should revise the City's Travel Policy to help ensure employees select the most economical means of travel, including restricting the use of hotels during local travel and authorization for extended travel times.

RECOMMENDATION #11

ASD should reorganize the existing budgetary travel-related accounts into a "Travel and Training" account for professional development and a "Meetings" account for tracking taxable forms of reimbursement, such as nighttime meeting meal expenses.

In these difficult economic times, the City must minimize all discretionary expenses, including travel. In spite of this need to cut costs, the City of Palo Alto places a high value on supporting employee growth and development. Continuing education and learning are a key component of that value. The City recognizes the needs of its professional staff to participate in continuing education to maintain required professional standing and certification. It encourages its employees to take a leadership role in regional organizations that address issues of key concern to Palo Alto. Finally, it is important that all employees of the City perceive that the policy for travel and meetings is being applied equitably between the General Fund and Enterprise Fund departments. Given these values, effective immediately:

For all travel requests:

- Approval by the department head is required. Delegation of this responsibility is not appropriate.
- Only one person from a department will attend any training or conference, unless the training is related to professional certification. The individual attending will be expected to provide other interested staff with the information garnered at the meeting.
- Wherever possible, travel should be limited to the Bay Area. Out-of-state travel for meetings should be discouraged.

In terms of priorities for approving travel requests:

1. Mandated training or certification for City employees.
2. Travel in the Bay Area
3. Travel required for legal reasons or for legislative advocacy that cannot be accomplished in Palo Alto
4. Travel related to *leadership* responsibilities in regional, national or international organizations related to City priorities, such as ICMA, LCC, Joint Venture Silicon Valley or the Metropolitan Transportation Commission *
5. Professional conferences in California *
6. National professional conferences *
7. Any other out-of-state travel; such travel must be approved by the City Manager, Assistant City Manager or Council Appointed Officer *

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Revised: March 2009

* Employee professional development or tuition reimbursement monies should be used to avoid or offset the City's contribution to the training, except for training that is mandated or related to maintaining professional certification. The Pre-Travel Authorization Form should indicate expenses that will be paid through employee benefits.

Exceptions to this policy must be approved by the City Manager, Assistant City Manager or Council Appointed Officer.

**TRAVEL POLICY: TRAVEL ARRANGEMENTS AND EXPENSE
REIMBURSEMENTS**

POLICY STATEMENT

This policy is to assure that City employees and other officials (board and commission members) follow appropriate procedures when arranging for travel, lodging, and other expenses and that they are paid for reasonable expenses incurred for travel, conferences, meetings, and meals as a result of conducting authorized City business. Also, the intent of this policy is to assure that payments made by the City are for actual and necessary expenses incurred for City business.

Employee travel may be authorized for conducting City business at one-day or extended¹ activities such as professional meetings, conferences and training sessions. Payments for travel and meeting expenses may be in the form of either prepayments or reimbursement, including appropriate registration fees, food, lodging, transportation costs and reasonable incidental expenses.

Specific forms² and procedures are established for extended travel and meeting reimbursement and for one-day meals and expense reimbursement. Quick reference guides at the end of this policy provide step-by-step guidance in completing the Pre-Travel Authorization Form and Travel Expense Report.

Implementation of this policy is the responsibility of the department heads. A department head may designate another staff member of the department to authorize travel and approve reimbursement forms by filing a memorandum documenting the designation with the Accounting Division of the Administrative Services Department. An individual may not authorize or approve reimbursement for his/her own travel; claim forms must be approved by another management employee. Normal accounting and purchasing controls remain the responsibility of the Director of Administrative Services.

Any exceptions to this policy must be approved by the City Manager or his/her designee. Temporary or contract employees must receive express authorization in advance from the City Manager or his/her designee for all travel and conferences.

¹ For purposes of this policy, "extended" refers to travel of more than one day (where an overnight stay is required).

² The required forms can be accessed on the City's U:drive at U/ASD/Accounting/Accounts payable/TravelPolicy/travelforms.xls or through links from this online policy.

PROCEDURE

A. Extended Travel

1. Authorization for Travel

Prior to the commitment or expenditure of any City funds for meeting reservations or arrangements, the employee shall obtain approval for the event from the department head or his/her designee. The **Pre-Travel Authorization** should include an estimate of total expenses, and a copy of the conference or meeting notice and registration forms must be attached. Any special arrangements, such as car rentals, non-standard rooms, or travel routes including side trips or extra days for personal business (i.e., a route that is longer or more expensive than a direct route to the event) should be identified and approved on this form by the City Manager or his/her designee, or by a Council Appointed Officer (CAO).

The Pre-Travel Authorization form includes boxes that must be checked by the employee and the department head as follows:

Employee's checkmarks indicate that:

- Government rates have been requested for hotel and registration, and hotel is asked about exemption for transient occupancy tax
- Employee agrees to submit expense report within 30 days
- An advance reimbursement has been requested (if applicable)
- Professional Development or Tuition Reimbursement funds will be used to reimburse employee for the travel or training (if applicable)
- Other expenses are included, with supporting documents attached (if applicable)

Department Head's checkmarks indicate that:

- Government rates for hotel and registration have been verified
- The request complies with the City's Travel policy and procedures
- Applicability of using Professional Development Funds has been determined

A copy of the Pre-Travel Authorization form, with actual expenses shown, will be forwarded to the department head when the travel is completed and all related expenses have been paid. Travel expenses to be charged to employee's Professional Development or Tuition Reimbursement benefits should be approved by the Human Resources Department before payment or reimbursement is made.

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Pre-payments for specific arrangements, accompanied by a copy of the signed Pre-Travel Authorization, do not need subsequent department director approval. If any payments need to be expedited, a **RUSH** priority must be indicated, and the request hand carried to Accounts Payable. (Allow at least three working days for payment processing.)

2. Registration Fee

The City encourages departments to use procurement cards for conference registration. A copy of the Pre-Travel Authorization should then be attached to the monthly procurement card activity log. When making reservations, departments should ask if government rates are available. A box must be checked on both the Pre-Travel Authorization and Travel Expense forms indicating that government rates were requested. An expense report must be filed with Accounts Payable following the conference. If a prepayment is requested through Accounts Payable, registration fees must be payable to the conference organization and shall be for those expenses indicated in the published information attached to the payment request form. Any deadlines for receipt of the registration should be identified prominently on the face of the payment request to assure timely payment.

3. Lodging Expense

The City encourages departments to use procurement cards for lodging reservations. A copy of the Pre-Travel Authorization should then be attached to the monthly procurement card activity log. Prepayment of hotel expenses may also be made by submitting a payment request form, with the **Pre-Travel Authorization** attached. When making reservations, departments should ask if government rates are available. A box must be checked on both the Pre-Travel Authorization and Travel Expense forms indicating that government rates were requested. Departments should also ask the hotel if the City of Palo Alto, as a government entity, is exempt from paying the Transient Occupancy Tax (TOT) and, if so, clarify what sort of documentation is required to qualify for the exemption. Traveling employees should carry their City ID cards.

Prepayment may be made either for the first day only, to guarantee the room, or for the full number of days, including room tax (if known). An out-of-state trip involving cross-country travel may

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require hotel accommodations both before and after the conference. Within California or adjoining states an extra hotel stay should not be necessary if flight arrangements can be made the same day. Prepayment or reimbursement of hotel bills will be limited to non-deluxe accommodations and will cover only the room charges for the employee. The original bill or receipt should be attached to the [Travel Expense Report](#).

4. Travel Arrangements

Departments are encouraged to make airline reservations on the Internet, utilizing a procurement card for payment. The Pre-Travel Authorization should then be attached to the monthly procurement card activity log. The City also contracts with a travel agency to be the exclusive travel agency handling City travel business. Any request to utilize other agencies must be approved by the Manager of Purchasing. City employees requiring assistance with travel services should call the designated travel agency and advise the agent that they are calling from the City of Palo Alto.

5. Transportation

- a. Air Transportation. Payment or reimbursement will be limited to economy coach class commercial air carrier. Selection of carrier, reservations, and ticketing shall be made on the Internet using a procurement card, employee's personal credit card, or arranged with the City's travel agency. If paid by a personal credit card, the employee may request reimbursement of airfare by submitting a copy of the online receipt or credit card bill prior to the conference. Employees are encouraged to make air reservations as early as feasible to obtain the greatest discount and to consider the use of alternate but nearby airports with ground transportation to take advantage of the lowest fares. Extension of the trip to cover any weekend stay over to obtain a lower airfare does not entitle the employee to be reimbursed for the extra day's hotel costs or per diem. An employee may use City travel to qualify for frequent flyer credits, but the selection of an airline for a given trip shall not be made for the purpose of accumulating such credits.
- b. Rental Cars. The necessity for a rental car must be established by the employee on the [Pre-Travel Authorization](#), and must be specifically approved by the

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department head. Rental cars can be arranged through the City's travel agency, or contracted for personally with reimbursement made when the expense report is filed. At this time, procurement cards cannot be used for car rentals. Only standard or economy car models may be rented, unless the upgrade is provided by the rental agency at no cost. Because the City is self-insured, employees should decline any additional insurance offered by the rental company. Employees must also decline any Fuel Purchase Options (which allow for prepayment of a gas tank refill). Use of a rental car, in lieu of a private auto, to travel to and from an out of town event will be reimbursed either at the private auto mileage rate or the car rental cost apportioned for the number of days used for City business, whichever is less.

- c. Private Automobiles. Employees may use private automobiles for personal or group transportation on extended trips upon receiving approval on the Pre-Travel Authorization form. Reimbursement shall be made at the rate established by the IRS for computing the value of personal use of an employer-supplied vehicle. This rate is determined at the beginning of each calendar year. The distance to be reimbursed shall be measured from City Hall or home, whichever is fewer miles. Mileage reimbursement shall not exceed the cost of refundable round trip air transportation (economy class), for a reservation made at least seven days in advance of the trip.
- d. City Pool Cars. City pool cars normally may not be used for transportation on extended trips. Requests for use of City vehicles or rental vehicles for this purpose should be directed to the Fleet Manager, Equipment Management Division, Public Works. For use of vehicles assigned to specific divisions and/or individuals, refer to the policy on Vehicle Use, Policy and Procedures 4-1.

6. Advance For Meals and Incidentals

An employee may request an advance of funds, using the Pre-Travel Authorization form, for payment of meals and incidentals of \$46.00 per travel day plus \$50.00 per trip for airport limo, cab fares or airport parking, if applicable. If the employee departs mid-day, per diem for that day is \$22.

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If meals are provided as part of conference registration costs (or included with the airfare), the \$46.00 per day allowance will be reduced by:

\$9.00 - Breakfast \$13.00 - Lunch \$24.00 - Dinner

The conference agenda should be highlighted to indicate meals known to be included in the conference registration. Receipts are not required for meal expenses, but receipts for ground transportation (airport limo, cab fares or airport parking) should be submitted with the Travel Expense Report if they exceed \$25 per day.

7. **Reconciliation and Reimbursement**

Within thirty business days after the employee's return from the trip, a **Travel Expense Report** must be filed with the Accounting Division of the Administrative Services Department. The employee must check the box on the expense report to certify that the information is correct. The filing of this form is necessary whether or not reimbursement is requested in order for the City and the employee to document to the Internal Revenue Service that payment of the expenses does not constitute miscellaneous income to the employee. If expenses for any trip are not reported within the required thirty working days, no future travel requests will be processed for the individual until the previous processing is complete. Original receipts for the lodging and transportation (airline ticket) shall be attached, as well as necessary receipts to support additional expenditures to be reimbursed. A copy of the meeting agenda, if available, must be included to confirm employee attendance; the employee signature on the Travel Expense Report certifies that indicated business expenses are correct.

The cost of airfare and hotel will normally be prepaid. Reimbursement for calls home is limited to one call per day, which should be restricted to a reasonable length. Employees will also be reimbursed for telephone calls to City of Palo Alto offices. The hotel bill should indicate any calls that are of a business nature. Other charges on the hotel bill, such as pay-TV movies, videotape rentals, cleaning, laundry, or additional guests are not reimbursable. Daily hotel parking charges are reimbursable.

A maximum of \$46.00 per day for meals (decreased for meals provided) is allowed without presentation of actual receipts. If the employee actually spends less than this amount (including tips), then

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the lesser amount should be reported on the travel reconciliation form. Employees will not be reimbursed for the purchase of alcoholic beverages.

If the employee spends less than the amount advanced, a check payable to the City of Palo Alto should be attached to the form. If reimbursement is due to the employee, payment will be made from the **Travel Expense Report** (no separate claim voucher is needed). Reimbursements due **to the employee** must be approved by another management employee, as designated by the department head. Expenses that exceed the per diem advance must be substantiated with receipts and authorized by the department head.

B. Local and One-Day or Less Travel and Meals Expense**1. Meals**

The City will reimburse for local meals according to the guidelines below. Total expenses of up to \$150 for one-day travel (mileage, parking, tolls and meals) should be reimbursed through the petty cash fund located on the first floor of city hall in Revenue Collections. A **Citywide Petty Cash Reimbursement** form for meal expense reimbursement or travel expense reimbursement (one day or less) should be prepared for any reimbursement, and should be accompanied by appropriate receipts, agendas, meeting announcements, etc., if available. If no formal agenda or notice is available, the form should contain an explanation of the nature of the business discussed or transacted, and an explanation of why the meal was necessary for the conduct of City business. No receipts are necessary for less than \$25, but a detailed record of expenses should be maintained and attached. Since the **Citywide Petty Cash Reimbursement** Form requires approval from the department head, no **Pre-Travel Authorization** form is needed for one-day travel.

A copy of the **Citywide Petty Cash Reimbursement** form, including an explanation of the required information, is included with this policy.

The following types of meal expenses are eligible for reimbursement with the approval of the department head:

- a. Meals taken when an employee has been assigned offsite to receive training, conduct field surveys, or attend meetings and

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the employee's normal meal break occurs during the time of travel or assignment. Meal reimbursement for local training or professional meetings, conducted between the hours of 8 a.m. and 5 p.m., will be limited to lunch expense, and only if lunch is not provided with the event.

- b. Meals that are an integral part of or directly related to a formal meeting of a recognized organization whose purpose is directly related to City business.
- c. Meals or refreshments taken during meetings consisting solely of City employees which have been planned and scheduled, and for which an agenda has been prepared indicating that the purpose of the meeting is to conduct City-related business.
- d. Meals or refreshments taken during meetings consisting solely of City employees which are exclusively working sessions where employees are required to continue working through a meal break. Working meals involving only City employees should be avoided wherever possible.
- e. Meals taken during meeting with vendors, contractors, consultants, or other non-City employees to discuss business directly related to City projects or operations when necessary for the conduct of City business.
- f. Meals taken during meetings with a prospective job applicant. In those cases where the Human Resources Department is to pay for the meal, a signature approving the reimbursement should be provided by a Human Resources Department representative on the reimbursement form.
- g. Meals taken by management employees assigned to attend night meetings for actual expenses up to \$20 for dinner, upon submittal of the agenda for the meeting attended.

Maximum reimbursement guidelines per person for business meetings are shown below. There will be no adjustment for meal expenses in excess of these per diem rates.

\$9.00 - Breakfast \$13.00 - Lunch \$24.00 - Dinner

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If a department is hosting a non-luncheon meeting on City-related issues, refreshments in an amount not to exceed \$50.00 may be authorized by the department head.

If a working luncheon is being provided by a department for community groups, liaison committees, etc., the Purchasing Division will provide a list of restaurants with whom the City has established blanket purchase orders for provision of the luncheon.

2. Miscellaneous Expenses

Miscellaneous expenses not exceeding \$150 and related to attending local meetings (e.g., parking, bridge tolls, etc.) can be reimbursed through petty cash on the first floor of city hall in Revenue Collections. No receipts are necessary for less than \$25, but a detailed record must be maintained and attached to the Petty Cash Reimbursement form.

3. Transportation for Formal Meetings/Classes Outside the City

- a. If available, City pool cars or assigned vehicles should be used for same-day trips that are outside the City limits but within the Bay Area. Personal cars may also be used, but reimbursement will only be made for that portion of the trip from the employee's job location or residence, whichever is fewer miles to the destination.
- b. Council appointed officers and department heads who receive an automobile expense allowance in lieu of exclusive use of a City automobile may not use City pool cars for business use except on an emergency basis which is documented by memo to the City Manager.

4. Reimbursement for Personal Vehicle Use on City Business

- a. Trips between City facilities or other meeting locations for City business within City limits should be made by City pool cars or assigned vehicles whenever possible.
- b. If a city vehicle is not available, regular and hourly City employees who, by management assignment and approval, use their personal vehicles for travel which is in connection with a specific job function, formal meeting, or assigned off-site training class are entitled to be reimbursed for that

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mileage at the prevailing reimbursement rate. The mileage and purpose of the trip must be clearly identified on the Meal/One Day Travel Reimbursement Form. Reimbursement requests that cover more than one date will be accepted on one form if the trips are for the same purpose or meeting.

- c. Council appointed officers and department heads who are recipients of an automobile expense allowance may not receive personal vehicle mileage reimbursement, or other forms of City-paid business travel, except in the case of business travel beyond the following Bay Area counties: San Francisco, San Mateo, Santa Clara, Santa Cruz, Alameda, Contra Costa, Sonoma and Marin.

C. Applicability to Employee Training Program

Department heads are responsible for administration of appropriations for employee training activities including reimbursement of travel expenses incurred in attending off-site classes and seminars. The following guidelines should be observed:

1. Training should be directly related to the employee's job responsibilities and the department's training and development plan.
2. Employees should not travel outside the Bay Area if the same or similar training is available locally within a reasonable period of time.
3. Where possible, training activities should be restricted to locations within the State of California.

NOTE: Questions and/or clarification of this policy should be directed to the Administrative Services Department.

Attachments: Quick Reference Guide for Pre-Travel Authorization
Quick Reference Guide for Travel Expense Report

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**Pre -Travel Authorization
Quick Reference Guide**

1. **Filing Requirements:**
 - An employee **MUST** obtain approval from department head or designee. Approval from City Manager or CAO required for out-of-state travel.
 - Send **original** Pre-Travel Authorization to Accounts Payable with a full copy of conference agenda.

2. **Registration Fee:**
 - Use of Procurement card or Executive Staff card is encouraged, if applicable.
 - Prepare claim voucher payable to conference organization.
 - Attach copy of:
 - Pre-Travel Authorization Form
 - Conference Registration Form w/ agenda
 - Attachments to be mailed w/ check (provide a copy for A/P file)

3. **Lodging Expense:**
 - Use of Procurement card or Executive Staff card is encouraged, if applicable.
 - Prepare claim voucher payable to hotel with daily rate, tax rate, and confirmation number.
 - Attach copy of:
 - Pre-Travel Authorization Form
 - Conference Registration Form w/ agenda
 - Attachments to be mailed w/ check (provide a copy for A/P file)

4. **Travel Arrangements:**
 - Online airfare ticket purchase is encouraged.
 - A purchase request needs to be made on airline tickets through City travel contract.

5. **Air Transportation:**
 - Payment or reimbursement is limited to economy coach. (Must attach supporting documents)

6. **Rental Cars:**
 - Employee needs to make arrangements and will be reimbursed on expense report.
 - Justification needs to be explained and approved by department head.
 - City will not pay for upgrades, additional insurance, or fuel purchase options.
 - No advance provided for rental cars.

7. **Private Autos:**
 - Mileage rate is established by the IRS, and reviewed annually. Current rate is shown on Travel Expense Report and Petty Cash Reimbursement form.
 - Mileage reimbursement shall not exceed the cost of refundable round trip air transportation (economy class). Attach supporting documents.

8. **City Pool Cars:**
 - Cannot be used on extended trips. See Policy & Procedures 4 – 1.

9. **Advance for Meals and Incidentals:**
 - Indicate on Pre-Travel Authorization form if an advance is requested.
 - Advance will be mailed to employee's home approximately one week prior to conference.
 - If requested, advance is given for meals (\$46 per day) plus \$50 for airport limo, cab fares or parking (*save receipts*).
 - The conference agenda should be highlighted to indicate meals included in the conference registration.

10. **Further Information:** Call Accounts Payable ext 2599 before leaving for your trip.

Travel Expense Report
Quick Reference Guide

1. **Filing Requirements:**
 - An expense report should be filed with Accounts Payable within thirty business days of returning from your trip and is required whether or not you are owed any money from the City, per IRS regulations.
 - Fill out all sections at the top of the report, *including* name, employee number, position, extension, department, cost center and commitment item code, the full name of the conference (not just initials), location and dates.

2. **Pre-Travel Authorization:**
 - Attach a copy of the signed Pre-Travel Authorization form and registration form, with agenda.

3. **Hotel:**
 - Attach a copy of the itemized hotel bill, and enter the *daily* room rate per day, including tax on the form.

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4. **Meals:**
 - Per Diem or lesser amounts for breakfast (\$9), lunch (\$13), and dinner (\$24) do not need receipts.
 - Deduct any meals which are hosted by the conference or meeting.
 - Enter the amount in each *daily* box.

5. **Miscellaneous Transportation, Parking, Bus/Taxi:**
 - Receipts are required for reimbursement if over \$25 per day, even though an advance of \$50 may have been given.
 - Enter the amount in each *daily* box.

6. **Telephone Calls:**
 - One limited personal call per day.
 - Note work-related calls on Itemized hotel bill (Including faxes).
 - Enter the amount in each *daily* box.

7. **Car Rentals:**
 - Car rentals must be established with the Pre-Travel Authorization and approved by your department head in advance.
 - The City no longer has a contract with a car rental agency, so the employee has to pay for rental car and attach receipt for reimbursement.
 - All upgrades to be paid by employee.
 - Employee should *decline* any additional insurance or fuel purchase option offered by the rental company.
 - Enter the amount in the *total* column.

8. **Transportation:**
 - Attach airfare receipt and itinerary indicating dates and time of travel.
 - Enter the amount in the *total* column.

9. **Other:**
 - Anything unusual for which you want reimbursement needs a memo signed off by your department head. When in doubt, *always obtain a receipt*.

10. **Expenses Not Covered:**
 - Social events, TV movies or videotape rentals, cleaning or laundry, additional guests, and alcoholic beverages.

11. **Further information:** Call Accounts Payable ext 2599 before leaving for your trip.

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In these difficult economic times, the City must minimize all discretionary expenses, including travel. In spite of this need to cut costs, the City of Palo Alto places a high value on supporting employee growth and development. Continuing education and learning are a key component of that value. The City recognizes the needs of its professional staff to participate in continuing education to maintain required professional standing and certification. It encourages its employees to take a leadership role in regional organizations that address issues of key concern to Palo Alto. Finally, it is important that all employees of the City perceive that the policy for travel and meetings is being applied equitably between the General Fund and Enterprise Fund departments. Given these values, effective immediately:

For all travel requests:

- Approval by the department head is required. Delegation of this responsibility is not appropriate.
- Only one person from a department will attend any training or conference, unless the training is related to professional certification. The individual attending will be expected to provide other interested staff with the information garnered at the meeting.
- Wherever possible, travel should be limited to the Bay Area. Out-of-state travel for meetings should be discouraged.

In terms of priorities for approving travel requests:

1. Mandated training or certification for City employees.
2. Travel in the Bay Area
3. Travel required for legal reasons or for legislative advocacy that cannot be accomplished in Palo Alto
4. Travel related to *leadership* responsibilities in regional, national or international organizations related to City priorities, such as ICMA, LCC, Joint Venture Silicon Valley or the Metropolitan Transportation Commission *
5. Professional conferences in California *
6. National professional conferences *
7. Any other out-of-state travel; such travel must be approved by the City Manager, Assistant City Manager or Council Appointed Officer *

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* Employee professional development or tuition reimbursement monies should be used to avoid or offset the City's contribution to the training, except for training that is mandated or related to maintaining professional certification. The Pre-Travel Authorization Form should indicate expenses that will be paid through employee benefits.

Exceptions to this policy must be approved by the City Manager, Assistant City Manager or Council Appointed Officer.

TRAVEL POLICY: TRAVEL ARRANGEMENTS AND EXPENSE
REIMBURSEMENTS

POLICY STATEMENT

This policy is to assure that City employees and other officials (board and commission members) follow appropriate procedures when arranging for travel, lodging, and other expenses and that they are paid for reasonable expenses incurred for travel, conferences, meetings, and meals as a result of conducting authorized City business. Also, the intent of this policy is to assure that payments made by the City are for actual and necessary expenses incurred for City business.

Employee travel may be authorized for conducting City business at one-day or extended¹ activities such as professional meetings, conferences and training sessions. Payments for travel and meeting expenses may be in the form of either prepayments or reimbursement, including appropriate registration fees, food, lodging, transportation costs and reasonable incidental expenses.

Specific forms² and procedures are established for extended travel and meeting reimbursement and for one-day meals and expense reimbursement. Quick reference guides at the end of this policy provide step-by-step guidance in completing the Pre-Travel Authorization Form and Travel Expense Report.

Implementation of this policy is the responsibility of the department heads. A department head may designate another staff member of the department to authorize travel and approve reimbursement forms by filing a memorandum documenting the designation with the Accounting Division of the Administrative Services Department. An individual may not authorize or approve reimbursement for his/her own travel; claim forms must be approved by another management employee. Normal accounting and purchasing controls remain the responsibility of the Director of Administrative Services.

Any exceptions to this policy must be approved by the City Manager or his/her designee. Temporary or contract employees must receive express authorization in advance from the City Manager or his/her designee for all travel and conferences.

¹ For purposes of this policy, "extended" refers to travel of more than one day (where an overnight stay is required).

² The required forms can be accessed on the City's U:drive at U/ASD/Accounting/Accounts payable/TravelPolicy/travelforms.xls or through links from this online policy.

PROCEDURE

A. Extended Travel

1. Authorization for Travel

Prior to the commitment or expenditure of any City funds for meeting reservations or arrangements, the employee shall obtain approval for the event from the department head or his/her designee. The **Pre-Travel Authorization** should include an estimate of total expenses, and a copy of the conference or meeting notice and registration forms must be attached. Any special arrangements, such as car rentals, non-standard rooms, or travel routes including side trips or extra days for personal business (i.e., a route that is longer or more expensive than a direct route to the event) should be identified and approved on this form by the City Manager or his/her designee, or by a Council Appointed Officer (CAO).

The Pre-Travel Authorization form includes boxes that must be checked by the employee and the department head as follows:

Employee's checkmarks indicate that:

- Government rates have been requested for hotel and registration, and hotel is asked about exemption for transient occupancy tax
- Employee agrees to submit expense report within 30 days
- An advance reimbursement has been requested (if applicable)
- Professional Development or Tuition Reimbursement funds will be used to reimburse employee for the travel or training (if applicable)
- Other expenses are included, with supporting documents attached (if applicable)

Department Head's checkmarks indicate that:

- Government rates for hotel and registration have been verified
- The request complies with the City's Travel policy and procedures
- Applicability of using Professional Development Funds has been determined

A copy of the Pre-Travel Authorization form, with actual expenses shown, will be forwarded to the department head when the travel is completed and all related expenses have been paid. Travel expenses to be charged to employee's Professional Development or Tuition Reimbursement benefits should be approved by the Human Resources Department before payment or reimbursement is made.

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Pre-payments for specific arrangements, accompanied by a copy of the signed Pre-Travel Authorization, do not need subsequent department director approval. If any payments need to be expedited, a **RUSH** priority must be indicated, and the request hand carried to Accounts Payable. (Allow at least three working days for payment processing.)

2. Registration Fee

The City encourages departments to use procurement cards for conference registration. A copy of the Pre-Travel Authorization should then be attached to the monthly procurement card activity log. When making reservations, departments should ask if government rates are available. A box must be checked on both the Pre-Travel Authorization and Travel Expense forms indicating that government rates were requested. An expense report must be filed with Accounts Payable following the conference. If a prepayment is requested through Accounts Payable, registration fees must be payable to the conference organization and shall be for those expenses indicated in the published information attached to the payment request form. Any deadlines for receipt of the registration should be identified prominently on the face of the payment request to assure timely payment.

3. Lodging Expense

The City encourages departments to use procurement cards for lodging reservations. A copy of the Pre-Travel Authorization should then be attached to the monthly procurement card activity log. Prepayment of hotel expenses may also be made by submitting a payment request form, with the **Pre-Travel Authorization** attached. When making reservations, departments should ask if government rates are available. A box must be checked on both the Pre-Travel Authorization and Travel Expense forms indicating that government rates were requested. Departments should also ask the hotel if the City of Palo Alto, as a government entity, is exempt from paying the Transient Occupancy Tax (TOT) and, if so, clarify what sort of documentation is required to qualify for the exemption. Traveling employees should carry their City ID cards.

Prepayment may be made either for the first day only, to guarantee the room, or for the full number of days, including room tax (if known). An out-of-state trip involving cross-country travel may

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require hotel accommodations both before and after the conference. Within California or adjoining states an extra hotel stay should not be necessary if flight arrangements can be made the same day. Prepayment or reimbursement of hotel bills will be limited to non-deluxe accommodations and will cover only the room charges for the employee. The original bill or receipt should be attached to the **Travel Expense Report**.

4. Travel Arrangements

Departments are encouraged to make airline reservations on the Internet, utilizing a procurement card for payment. The Pre-Travel Authorization should then be attached to the monthly procurement card activity log. The City also contracts with a travel agency to be the exclusive travel agency handling City travel business. Any request to utilize other agencies must be approved by the Manager of Purchasing. City employees requiring assistance with travel services should call the designated travel agency and advise the agent that they are calling from the City of Palo Alto.

5. Transportation

- a. **Air Transportation**. Payment or reimbursement will be limited to economy coach class commercial air carrier. Selection of carrier, reservations, and ticketing shall be made on the Internet using a procurement card, employee's personal credit card, or arranged with the City's travel agency. If paid by a personal credit card, the employee may request reimbursement of airfare by submitting a copy of the online receipt or credit card bill prior to the conference. Employees are encouraged to make air reservations as early as feasible to obtain the greatest discount and to consider the use of alternate but nearby airports with ground transportation to take advantage of the lowest fares. Extension of the trip to cover any weekend stay over to obtain a lower airfare does not entitle the employee to be reimbursed for the extra day's hotel costs or per diem. An employee may use City travel to qualify for frequent flyer credits, but the selection of an airline for a given trip shall not be made for the purpose of accumulating such credits.
- b. **Rental Cars**. The necessity for a rental car must be established by the employee on the **Pre-Travel Authorization**, and must be specifically approved by the

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department head. Rental cars can be arranged through the City's travel agency, or contracted for personally with reimbursement made when the expense report is filed. At this time, procurement cards cannot be used for car rentals. Only standard or economy car models may be rented, unless the upgrade is provided by the rental agency at no cost. Because the City is self-insured, employees should decline any additional insurance offered by the rental company. Employees must also decline any Fuel Purchase Options (which allow for prepayment of a gas tank refill). Use of a rental car, in lieu of a private auto, to travel to and from an out of town event will be reimbursed either at the private auto mileage rate or the car rental cost apportioned for the number of days used for City business, whichever is less.

- c. Private Automobiles. Employees may use private automobiles for personal or group transportation on extended trips upon receiving approval on the Pre-Travel Authorization form. Reimbursement shall be made at the rate established by the IRS for computing the value of personal use of an employer-supplied vehicle. This rate is determined at the beginning of each calendar year. The distance to be reimbursed shall be measured from City Hall or home, whichever is fewer miles. Mileage reimbursement shall not exceed the cost of refundable round trip air transportation (economy class), for a reservation made at least seven days in advance of the trip.
- d. City Pool Cars. City pool cars normally may not be used for transportation on extended trips. Requests for use of City vehicles or rental vehicles for this purpose should be directed to the Fleet Manager, Equipment Management Division, Public Works. For use of vehicles assigned to specific divisions and/or individuals, refer to the policy on Vehicle Use, Policy and Procedures 4-1.

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An employee may request an advance of funds, using the Pre-Travel Authorization form, for payment of meals and incidentals of \$46.00 per travel day plus \$50.00 per trip for airport limo, cab fares or airport parking, if applicable. If the employee departs mid-day, per diem for that day is \$22.

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If meals are provided as part of conference registration costs (or included with the airfare), the \$46.00 per day allowance will be reduced by:

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The conference agenda should be highlighted to indicate meals known to be included in the conference registration. Receipts are not required for meal expenses, but receipts for ground transportation (airport limo, cab fares or airport parking) should be submitted with the Travel Expense Report if they exceed \$25 per day.

7. **Reconciliation and Reimbursement**

Within thirty business days after the employee's return from the trip, a **Travel Expense Report** must be filed with the Accounting Division of the Administrative Services Department. The employee must check the box on the expense report to certify that the information is correct. The filing of this form is necessary whether or not reimbursement is requested in order for the City and the employee to document to the Internal Revenue Service that payment of the expenses does not constitute miscellaneous income to the employee. If expenses for any trip are not reported within the required thirty working days, no future travel requests will be processed for the individual until the previous processing is complete. Original receipts for the lodging and transportation (airline ticket) shall be attached, as well as necessary receipts to support additional expenditures to be reimbursed. A copy of the meeting agenda, if available, must be included to confirm employee attendance; the employee signature on the Travel Expense Report certifies that indicated business expenses are correct.

The cost of airfare and hotel will normally be prepaid. Reimbursement for calls home is limited to one call per day, which should be restricted to a reasonable length. Employees will also be reimbursed for telephone calls to City of Palo Alto offices. The hotel bill should indicate any calls that are of a business nature. Other charges on the hotel bill, such as pay-TV movies, videotape rentals, cleaning, laundry, or additional guests are not reimbursable. Daily hotel parking charges are reimbursable.

A maximum of \$46.00 per day for meals (decreased for meals provided) is allowed without presentation of actual receipts. If the employee actually spends less than this amount (including tips), then

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If the employee spends less than the amount advanced, a check payable to the City of Palo Alto should be attached to the form. If reimbursement is due to the employee, payment will be made from the **Travel Expense Report** (no separate claim voucher is needed). Reimbursements due **to the employee** must be approved by another management employee, as designated by the department head. Expenses that exceed the per diem advance must be substantiated with receipts and authorized by the department head.

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The City will reimburse for local meals according to the guidelines below. Total expenses of up to \$150 for one-day travel (mileage, parking, tolls and meals) should be reimbursed through the petty cash fund located on the first floor of city hall in Revenue Collections. A **Citywide Petty Cash Reimbursement** form for meal expense reimbursement or travel expense reimbursement (one day or less) should be prepared for any reimbursement, and should be accompanied by appropriate receipts, agendas, meeting announcements, etc., if available. If no formal agenda or notice is available, the form should contain an explanation of the nature of the business discussed or transacted, and an explanation of why the meal was necessary for the conduct of City business. No receipts are necessary for less than \$25, but a detailed record of expenses should be maintained and attached. Since the **Citywide Petty Cash Reimbursement** Form requires approval from the department head, no **Pre-Travel Authorization** form is needed for one-day travel.

A copy of the **Citywide Petty Cash Reimbursement** form, including an explanation of the required information, is included with this policy.

The following types of meal expenses are eligible for reimbursement with the approval of the department head:

- a. Meals taken when an employee has been assigned offsite to receive training, conduct field surveys, or attend meetings and

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the employee's normal meal break occurs during the time of travel or assignment. Meal reimbursement for local training or professional meetings, conducted between the hours of 8 a.m. and 5 p.m., will be limited to lunch expense, and only if lunch is not provided with the event.

- b. Meals that are an integral part of or directly related to a formal meeting of a recognized organization whose purpose is directly related to City business.
- c. Meals or refreshments taken during meetings consisting solely of City employees which have been planned and scheduled, and for which an agenda has been prepared indicating that the purpose of the meeting is to conduct City-related business.
- d. Meals or refreshments taken during meetings consisting solely of City employees which are exclusively working sessions where employees are required to continue working through a meal break. Working meals involving only City employees should be avoided wherever possible.
- e. Meals taken during meeting with vendors, contractors, consultants, or other non-City employees to discuss business directly related to City projects or operations when necessary for the conduct of City business.
- f. Meals taken during meetings with a prospective job applicant. In those cases where the Human Resources Department is to pay for the meal, a signature approving the reimbursement should be provided by a Human Resources Department representative on the reimbursement form.
- g. Meals taken by management employees assigned to attend night meetings for actual expenses up to \$20 for dinner, upon submittal of the agenda for the meeting attended.

Maximum reimbursement guidelines per person for business meetings are shown below. There will be no adjustment for meal expenses in excess of these per diem rates.

\$9.00 - Breakfast \$13.00 - Lunch \$24.00 - Dinner

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If a department is hosting a non-luncheon meeting on City-related issues, refreshments in an amount not to exceed \$50.00 may be authorized by the department head.

If a working luncheon is being provided by a department for community groups, liaison committees, etc., the Purchasing Division will provide a list of restaurants with whom the City has established blanket purchase orders for provision of the luncheon.

2. Miscellaneous Expenses

Miscellaneous expenses not exceeding \$150 and related to attending local meetings (e.g., parking, bridge tolls, etc.) can be reimbursed through petty cash on the first floor of city hall in Revenue Collections. No receipts are necessary for less than \$25, but a detailed record must be maintained and attached to the Petty Cash Reimbursement form.

3. Transportation for Formal Meetings/Classes Outside the City

- a. If available, City pool cars or assigned vehicles should be used for same-day trips that are outside the City limits but within the Bay Area. Personal cars may also be used, but reimbursement will only be made for that portion of the trip from the employee's job location or residence, whichever is fewer miles to the destination.
- b. Council appointed officers and department heads who receive an automobile expense allowance in lieu of exclusive use of a City automobile may not use City pool cars for business use except on an emergency basis which is documented by memo to the City Manager.

4. Reimbursement for Personal Vehicle Use on City Business

- a. Trips between City facilities or other meeting locations for City business within City limits should be made by City pool cars or assigned vehicles whenever possible.
- b. If a city vehicle is not available, regular and hourly City employees who, by management assignment and approval, use their personal vehicles for travel which is in connection with a specific job function, formal meeting, or assigned off-site training class are entitled to be reimbursed for that

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mileage at the prevailing reimbursement rate. The mileage and purpose of the trip must be clearly identified on the Meal/One Day Travel Reimbursement Form. Reimbursement requests that cover more than one date will be accepted on one form if the trips are for the same purpose or meeting.

- c. Council appointed officers and department heads who are recipients of an automobile expense allowance may not receive personal vehicle mileage reimbursement, or other forms of City-paid business travel, except in the case of business travel beyond the following Bay Area counties: San Francisco, San Mateo, Santa Clara, Santa Cruz, Alameda, Contra Costa, Sonoma and Marin.

C. Applicability to Employee Training Program

Department heads are responsible for administration of appropriations for employee training activities including reimbursement of travel expenses incurred in attending off-site classes and seminars. The following guidelines should be observed:

1. Training should be directly related to the employee's job responsibilities and the department's training and development plan.
2. Employees should not travel outside the Bay Area if the same or similar training is available locally within a reasonable period of time.
3. Where possible, training activities should be restricted to locations within the State of California.

NOTE: Questions and/or clarification of this policy should be directed to the Administrative Services Department.

Attachments: Quick Reference Guide for Pre-Travel Authorization
Quick Reference Guide for Travel Expense Report

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**Pre -Travel Authorization
Quick Reference Guide**

1. **Filing Requirements:**
 - An employee **MUST** obtain approval from department head or designee. Approval from City Manager or CAO required for out-of-state travel.
 - Send **original** Pre-Travel Authorization to Accounts Payable with a full copy of conference agenda.

2. **Registration Fee:**
 - Use of Procurement card or Executive Staff card is encouraged, if applicable.
 - Prepare claim voucher payable to conference organization.
 - Attach copy of:
 - Pre-Travel Authorization Form
 - Conference Registration Form w/ agenda
 - Attachments to be mailed w/ check (provide a copy for A/P file)

3. **Lodging Expense:**
 - Use of Procurement card or Executive Staff card is encouraged, if applicable.
 - Prepare claim voucher payable to hotel with daily rate, tax rate, and confirmation number.
 - Attach copy of:
 - Pre-Travel Authorization Form
 - Conference Registration Form w/ agenda
 - Attachments to be mailed w/ check (provide a copy for A/P file)

4. **Travel Arrangements:**
 - Online airfare ticket purchase is encouraged.
 - A purchase request needs to be made on airline tickets through City travel contract.

5. **Air Transportation:**
 - Payment or reimbursement is limited to economy coach. (Must attach supporting documents)

6. **Rental Cars:**
 - Employee needs to make arrangements and will be reimbursed on expense report.
 - Justification needs to be explained and approved by department head.
 - City will not pay for upgrades, additional insurance, or fuel purchase options.
 - No advance provided for rental cars.

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7. **Private Autos:**
 - Mileage rate is established by the IRS, and reviewed annually. Current rate is shown on Travel Expense Report and Petty Cash Reimbursement form.
 - Mileage reimbursement shall not exceed the cost of refundable round trip air transportation (economy class). Attach supporting documents.
8. **City Pool Cars:**
 - Cannot be used on extended trips. See Policy & Procedures 4 – 1.
9. **Advance for Meals and Incidentals:**
 - Indicate on Pre-Travel Authorization form if an advance is requested.
 - Advance will be mailed to employee's home approximately one week prior to conference.
 - If requested, advance is given for meals (\$46 per day) plus \$50 for airport limo, cab fares or parking (*save receipts*).
 - The conference agenda should be highlighted to indicate meals included in the conference registration.
10. **Further Information:** Call Accounts Payable ext 2599 before leaving for your trip.

Travel Expense Report
Quick Reference Guide

1. **Filing Requirements:**
 - An expense report should be filed with Accounts Payable within thirty business days of returning from your trip and is required whether or not you are owed any money from the City, per IRS regulations.
 - Fill out all sections at the top of the report, *including* name, employee number, position, extension, department, cost center and commitment item code, the full name of the conference (not just initials), location and dates.
2. **Pre-Travel Authorization:**
 - Attach a copy of the signed Pre-Travel Authorization form and registration form, with agenda.
3. **Hotel:**
 - Attach a copy of the itemized hotel bill, and enter the *daily* room rate per day, including tax on the form.

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4. **Meals:**
 - Per Diem or lesser amounts for breakfast (\$9), lunch (\$13), and dinner (\$24) do not need receipts.
 - Deduct any meals which are hosted by the conference or meeting.
 - Enter the amount in each *daily* box.

5. **Miscellaneous Transportation, Parking, Bus/Taxi:**
 - Receipts are required for reimbursement if over \$25 per day, even though an advance of \$50 may have been given.
 - Enter the amount in each *daily* box.

6. **Telephone Calls:**
 - One limited personal call per day.
 - Note work-related calls on Itemized hotel bill (Including faxes).
 - Enter the amount in each *daily* box.

7. **Car Rentals:**
 - Car rentals must be established with the Pre-Travel Authorization and approved by your department head in advance.
 - The City no longer has a contract with a car rental agency, so the employee has to pay for rental car and attach receipt for reimbursement.
 - All upgrades to be paid by employee.
 - Employee should *decline* any additional insurance or fuel purchase option offered by the rental company.
 - Enter the amount in the *total* column.

8. **Transportation:**
 - Attach airfare receipt and itinerary indicating dates and time of travel.
 - Enter the amount in the *total* column.

9. **Other:**
 - Anything unusual for which you want reimbursement needs a memo signed off by your department head. When in doubt, *always obtain a receipt*.

10. **Expenses Not Covered:**
 - Social events, TV movies or videotape rentals, cleaning or laundry, additional guests, and alcoholic beverages.

11. **Further information:** Call Accounts Payable ext 2599 before leaving for your trip.

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CASH HANDLING

POLICY STATEMENT

The handling of cash¹ within the City organization is an extremely important and sensitive activity. The Palo Alto Municipal Code stipulates that it is the responsibility of the Treasury Manager, under the direction of the Director of Finance, to ensure prompt, accurate, and secure processing of City revenues. The Treasury Manager ensures that procedures governing the deposit and security of all cash in all departments of the City are established and maintained by each department. It is the responsibility of each department head to ensure that the procedures are established and adhered to. Cash handling procedures are hereby established as specified in the Cash Handling Manual.³

The Cash Handling Manual lists all authorized payment locations within the City of Palo Alto. Temporary or permanent receipt of cash by employees at locations other than those listed requires prior written approval from the Supervisor of Revenue Collections.

The objectives of the regulations and procedures governing cash handling are to provide uniform and controlled cash handling throughout the City, to deposit cash in a timely and efficient manner, and to prevent cash losses.

PROCEDURE

Reference should be made to the Cash Handling Manual in which procedures are established for all payment locations within the City. This manual contains information and procedures pertaining to:

1. Authorized revenue collection points
2. Source of revenues
3. Frequency of deposits and method of transport to Revenue Collections or bank

Footnote:

- 1 "Cash" is defined as currency, coin, checks, money orders, charge slips, passes, scrip, bank transfers and other like items of value.
 - 2 Each Department will have a copy of their cash handling procedures available for staff reference.
 - 3 "Cash Handling Manual" is a document, on file in the Supervisor, Revenue Collection's Office, containing Citywide procedures pertaining to cash handling.
 - 4 "Cash handling incidents" are defined as deposit discrepancies, unexplained disappearance of cash or failure to follow set cash handling procedures.
-

4. Daily cash handling
5. Reporting of cash incidents
6. Examples of all relevant documents
- A. Responsibilities, Supervisor of Revenue Collections:
 1. Be available as a resource in all matters pertaining to cash handling including recommendation of equipment needed for effective cash handling.
 2. Upon request, assist each department in the development of new procedures, which shall be designed to effectively incorporate the specific needs of the department with the guidelines contained in the Cash Handling Manual.³
 3. Upon request, review, recommend and approve revisions to existing procedures developed by the departments.
 4. Upon request, provide training to department personnel with cash handling responsibilities.
 5. Notify appropriate management personnel when a cash handling incident occurs, following procedures set forth in the Cash Handling Manual.⁴
 6. Participate in the investigation of all cash handling incidents, assisting the department in implementing necessary changes, and ensuring that cash handling incident reports are prompt, complete and contain appropriate recommendations.
- B. Responsibilities, Treasury Manager:
 1. Work with each department to ensure that the procedures governing the deposit and security of all cash are established.
 2. Review cash handling procedures prepared by each department, after they have been reviewed by the Supervisor of Revenue Collections.
 3. Notify the Administrative Services Department Director of all cash handling incidents over \$100.

C. Responsibilities, Department Head:

1. Designate the person within each division who will be responsible for developing, writing and updating the cash handling procedures and will act as liaison between the division and the Supervisor of Revenue Collections in finalizing these procedures.
2. Prepare final cash handling procedures according to guidelines, and submit these to the Supervisor of Revenue Collections for review.
3. Ensure that employees assigned cash handling responsibilities are adequately trained in the established procedures provided in the Cash Handling Manual, and that necessary resources (i.e., equipment and personnel) are provided.
4. Obtain approval for proposed procedural changes from the Supervisor of Revenue Collections, and provide training for employees prior to implementation of new procedures.
5. Immediately notify the Supervisor of Revenue Collections in the event of a cash handling incident, and forward a cash handling incident report to key management personnel within five (5) business days, following procedures listed in the Cash Handling Manual.

D. Responsibilities, Accounting Manager:

1. On a daily basis, reconcile Revenue Summary Report received from each cash handling point to actual bank deposit slips.
2. Account for the cash receipts number sequence for designated cash handling points.
3. Immediately notify the Supervisor of Revenue Collections of any deposit discrepancies, following procedures set forth in the Cash Handling Manual.

E. Responsibilities, City Auditor:

1. To assist members of the organization in the effective discharge of their responsibilities by furnishing analysis, appraisals, recommendations, and information upon request.
2. Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.

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3. Review the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
4. Audit cash handling operations at cash handling points to ensure that all cash handling incidents are resolved and procedures are in place to prevent further incidents.

NOTE: Questions and/or clarification of this policy should be directed to the Administrative Services Department.

Memorandum

Date: September 21, 2010
To: City Auditor
From: James Keene, City Manager
Prepared By: Lalo Perez, Director of Administrative Services (ASD)
Subject: ASD Response to Audit of Citywide Cash Handling and Travel Expense Reimbursement

Introduction

The City Auditor completed an audit of Citywide Cash Handling and Travel Expense Reimbursements at the request of Council. ASD welcomes the recommendations in this audit as an opportunity to strengthen these areas of safeguarding City assets.

The Auditor's recommendations identify a number of areas in which controls should be strengthened, and other areas in which requirements are not universally understood and need to be better clarified and communicated, or at least made more accessible to staff.

A number of suggestions made by the Auditor in this report seem promising avenues for improving the City's fiscal operations, such as:

- Updating the Cash Handling Manual, and incorporating on-line payment processing procedures within it
- Bolstering staff training and monitoring of all cash handling sites
- Streamlining travel payment processes
- Updating the nighttime meeting reimbursement policy
- Working with other departments to review the Executive Card program

Two themes emerge as ASD considers these recommendations. One is the necessity of risk assessment. The Auditor's report mentions this, for example, in Recommendation 2, suggesting "periodic and surprise cash reviews for revenue collection locations *based on ASD's Risk Assessment*" (emphasis added). In light of the ongoing staffing constraints within ASD and all other departments, ASD must conduct these reviews strategically, based upon its assessment of the risk posed by each site's operation, compared to the cost of having to add resources. Risk assessment must be used throughout the implementation of the recommendations discussed below, to prioritize areas meriting the greatest and swiftest attention.

The second theme is the need for interdepartmental cooperation. While this audit addresses ASD primarily, and ASD is responsible for ensuring proper compliance with these recommendations, it cannot successfully do so without the full cooperation and support of the departments with which it works. A successful Citywide cash handling operation requires a multilateral effort between all six of the departments with cash handling sites and Revenue Collections. Similarly, all thirteen departments will need to cooperate in implementing improvements to the City's travel policies and practices. ASD will work to gain full support from each and every department as it sets out to utilize the recommendations in this report to strengthen its fiscal management of

City operations. Furthermore, it will rely on feedback and information from the departments in refining its policies and procedures to accurately reflect the reality “on the ground.”

Responses to Recommendations

The following are ASD’s responses to the specific recommendations contained in the Audit Report.

RECOMMENDATION #1: ASD should update the Citywide Cash Handling Procedures to provide sufficient guidance on internal controls related to cash handling.

Staff agrees with this recommendation.

A 1991 Administrative Instruction Manual was written for Revenue Collections staff, and was used as a starting point for individual sites to develop their own cash handling procedures. It covers items such as issuing receipts, safeguarding the cash drawer, identifying counterfeit currency, making correct change, and, in the case of Revenue Collections, performing collections on unpaid bills. Staff agrees that this manual needs revision to make sure it covers all areas of cash handling, including the three areas discussed in the Audit Report – segregation of duties, safeguarding of revenue, and proper documentation of all transaction. An initial update of the Policy and Procedures section on Cash Handling was completed in early 2010, but staff held off on finalizing this until after this Audit was completed, so as to be able to incorporate relevant recommendations. In addition, staff has begun reviewing other jurisdictions’ cash handling manuals and intends to integrate the most effective parts of each.

In recent years, the cash handling focus by ASD staff has shifted towards the development of individualized cash handling procedures for each facility, reflecting their individual business needs but still covering common procedures and requirements. Revenue Collections has a copy of the written procedures from 18 facilities – this translates to all of the facilities covered by the Report, plus others such as Cubberley and the Development Center which were not in the scope of this Audit. Along with updating the central Cash Handling Manual, staff will review these individual sites’ procedures to ensure they are comprehensive, in compliance with best practices, and inclusive of the audit recommendations. ASD will provide a checklist to ensure each facility fulfills each of the procedural requirements.

RECOMMENDATION #2: ASD should improve its cash handling oversight program to include 1) cash handling and internal controls training for employees who handle revenue and 2) routine visits and surprise cash reviews for revenue collection locations based on ASD’s risk assessment.

Staff agrees overall with this recommendation. The current oversight program is proactive and includes informal employee training with periodic cash reviews, and feedback when issues arise; yet the program could be more structured and robust.

All of the City’s cash handling facilities – of which 20 were enumerated in the Audit Report - have differing business processes. While all financial data are integrated into SAP, each business

area has unique needs that are best met by specialized software. Specifically, Libraries use Horizon library circulation system software; Animal Services uses the Chameleon animal shelter management system; CSD employs the CLASS registration and point of sale system; the Palo Alto Landfill uses the Acme Scales landfill operation program; the Development employs the Accela permit issuance and billing program; the Children's Theater uses WINTIX ticket sales program, and Revenue Collections uses the CORE point of sale system. Due to the many different programs, Revenue Collections relies on each department to provide some of the training and instruction in their respective systems.

ASD Revenue Collections is in regular contact with the facilities and conducts frequent site visits. Over the past fiscal year Revenue Collections staff documented eighteen site visits, of which some were "surprise" and others scheduled. Commonly en route to or from site visits, staff will stop at one or two other sites; yet these "tertiary" site visits are not formally documented. Therefore, well over eighteen site visits were completed in the past year. Staff will maintain records of the visits and business conducted, including any issues or new recommendations.

In addition, there is ongoing telephone and email contact, as well as meetings at City Hall between Revenue Collections staff and staff from the various facilities.

Lastly, Revenue Collections works closely with the Accounting Division to identify and resolve any deposit and documentation discrepancies. The Accounting Division monitors daily bank deposits, comparing documentation submitted by each facility. Discrepancies are communicated to each facility and to Revenue Collections. The issue is then monitored by both Accounting and Revenue Collections until the issue is resolved.

In recent years, the mode of payments has shifted towards online, debit and credit card payments and away from checks and currency. At the same time, great advances have been made in protecting checking accounts from fraudulent transactions, and it has become easier and faster to track down the flow of check transactions. Both trends have reduced the risk of loss of cash.

However, human errors, collusion, or embezzlement are still possible, and any site that handles funds in any form is vulnerable to losses at some point. Recent research released by the Association of Certified Fraud Examiners shows that employee education is the key to preventing and detecting occupational fraud.

Therefore, ASD's current oversight program, while proactive, could be stronger. For example, surprise cash counts could be readily added to the site visits. Also, ASD could plan its schedule of site visits more strategically, based upon its risk assessment of the sites. Lastly, once the Cash Handling Manual is updated, ASD may adopt a technique used in some other jurisdictions: once employees are trained in the new manual, they sign off on their commitment to abide by its procedures once annually.

On the other hand, strengthening the oversight program presents a challenge given already-reduced staff resources. The existing program described above was largely implemented prior to the July 1, 2010 reduction of 1.5 FTE in Revenue Collections staff. With fewer FTE,

maintaining the existing oversight efforts will be a stretch, not to mention further structuring and documenting the oversight and monitoring of revenue collection sites. In addition, in the accounting division 2.5 FTE have been eliminated since 2005 further reducing the staffing available to increase the review of procurement cards and travel expenses.

For example, were ASD to implement a training class in basic cash handling for all department staff involved in cash handling (which ASD thinks is an excellent suggestion), additional staff resources would be needed from Revenue Collections as well as from the collection sites attending the trainings, presumably in addition to the informal training they already receive during Revenue Collection's site visits and other meetings.

A work plan with recommended levels of cash validations and on-going training will need to be developed in order to assess the resources needed to address the recommendations. ASD plans to complete this work plan and resources analysis in the coming months and determine a course of action based on the risk assessment.

RECOMMENDATION #3: ASD Revenue Collections should develop procedures for processing on-line revenue, i.e. PayPal to help ensure proper segregation of duties, safeguarding of revenue and proper authorization and approval of transactions.

Staff agrees that these procedures need to be more centrally documented and well distributed.

Revenue Collections has already implemented a number of alternative payment methods. Customers can now pay parking citation fees on-line, and BLING (a payment option utilizing customer's PayPal account) was implemented in August 2010. ASD also provided support for Utilities' on-line payment process and has begun researching options for on-line payment of parking permits. ASD staff visited the City of Monterey for a demo of their permit system, and also met recently with representatives from the City of Inglewood regarding their on-line permit system.

Several facilities also accept on-line payments such as Community Services (class registration), City libraries (fees) and the Development Center (permits). The handling of revenue from these sources is already documented for the sites that handle these transactions, but once again this has not been incorporated into a centralized document. Revenue Collections is prepared to include those instructions into the Cash Handling Manual along with the suggested update of that document.

The Police Department's Project Safety Net/Track Watch program, which is mentioned in the report as an online payment-processing program, is a new program to the City, having gone live in December 2009. The Police Department, along with the City Manager's Office, created the program in compliance with the City's Policy and Procedure #1-18 on Gifts to the City.

Within this program, the City Manager's Office monitors the PayPal donations, while all checks are processed by Revenue Collections. Previously, the City's web site instructed donors to send checks to the Police Department, which recorded the donations and delivered the checks to

Revenue Collections for processing. The Police Department has since initiated a process to change this procedure, and all check donations will now be sent directly to Revenue Collections.

RECOMMENDATION #4: ASD should work with the departments to immediately address operational weaknesses noted in the areas of safeguarding revenue, segregation of duties, and proper documentation and approval of certain types of transactions (e.g. voided transactions and issuance of receipts). ASD should ensure their list of approved revenue collection locations is complete and updated, and these locations have adequate procedures to safeguard revenue.

Staff agrees with this recommendation, yet wishes to point out that some sites have significant space and resource constraints; therefore flexibility and some creativity will be necessary to implement adequate safeguards.

The specific operational weaknesses identified in the Auditor's report are addressed below:

1. Some locations lacked appropriate cash handling procedures and sufficient oversight.

Three "revenue collection locations" are cited as not having approved cash handling procedures in place. Two of those locations – Human Resource's COBRA program and Utilities Customer Service - are described as being in the process of working with Revenue Collections to develop appropriate procedures. The third – Project Safety Net – is discussed above under Recommendation #3.

The Human Resources Department's COBRA program has not, to ASD's knowledge, been considered an independent cash handling facility. Revenue Collections is nonetheless working with Human Resources to develop appropriate procedures, and has ordered an endorsement stamp so checks can be immediately and restrictively endorsed. This program's procedures will include a strict time frame for updating HR records and delivering the checks to ASD Revenue Collections for processing and deposit.

2. Most site visit locations insufficiently safeguarded revenue.

This issue will receive high-priority attention from ASD staff.

As the report mentions on page 14-15, "Some of the issues are the result of locations not following their own department's procedures." For example, the Landfill operation's written procedures specify "[t]he safe combination must be changed when an employee with knowledge of the combination terminates employment." Yet the Audit Report notes that the site did so only after being reminded by Revenue Collections. Indeed, this emphasizes the critical need for interdepartmental cooperation in successful implementation of these procedures. ASD believes that with more structured training and monitoring, the level of compliance among the departments will increase, but departments will also have to proactively step up their compliance with the proscribed procedures.

3. Cash discrepancy and deposit slip errors

The Auditor’s report identified two instances of discrepancies in the \$5 range. These discrepancies were in the site’s working fund balance. ASD will work carefully with all sites to address the process errors which led to this.

In a third instance, the Audit Report noted that the site “processed an incorrect deposit slip”. The location did not identify the discrepancy; however, ASD’s Accounting group later identified and corrected the error.”

4. Most locations appropriately segregate duties

The report indicates “most locations appropriately segregate duties,” but two specific locations – Animal Services and Foothills Park - were noted exceptions. Revenue Collections is aware that at these two locations, there is incomplete segregation of duties, due to the particular space and staffing constraints of the facilities. For example, if an area has limited staffing it may be difficult to completely segregate duties and it very possible that the staff member who processed the transaction may also have to process the void transaction. Therefore, ASD would like to suggest that other controls, such as safeguarding of revenue and complete documentation, be emphasized to balance the relative weakness of the segregation of duties at these sites.

On the summary table on page 13, the Audit Report lists the individual sites with their annual revenue processing volumes, indicating which areas are adequate and which need attention. Another component of this risk assessment is looking at the actual cash volume brought in by each site. The following table lists the cash volumes deposited by each site in the month of June.

Location	Volume of 2009-10 Transactions	Cash Deposits in June 2010*	Written Procedures Last Updated
Animal Services	\$ 1,400,000	\$ 4,105	Sept. 2004
Children’s Theatre	\$ 130,000	\$ 900	April 2009
Chili Cook-Off**	\$ 20,000	\$ 20,000	June 2002
Foothills Park	\$ 13,000	\$ 1,132	August 2007
Human Resources	\$ 35,000	0	in progress
Jr. Museum	\$ 200,000	\$ 140	July 2007
Landfill	\$ 1,000,000	\$ 48,250	July 2010
Lucie Stern	\$ 2,239,105	\$ 6,516	March 2009
Main Library	\$ 75,000	\$ 4,543	November 2008
Police Dept	\$ 85,000	0	in progress
Revenue Collections	\$86,000,000***	\$ 49,870	April 2009
Rinconada Pool	\$ 211,000	\$ 28,904	March 2009
Utilities- Cust Srv	\$ 1,200,000	0	

*Represents cash (currency and coins) deposited in the month of June 2010, based on copies of deposit slips provided by the facilities

**Receipts were in July

***Represents all payments processed in Revenue Collections through CORE (cash receipting system). It does not include revenue from the Processing Center (Utilities billing - \$146 million, and Parking Citations- \$0.7 million).

Foothills Park deposited \$1,132 in cash in the month of June, and about \$13,000 in all forms of payment per year – a mere 0.2% of the Citywide total of \$6.57 million in revenue processed per year. Beefing up their controls beyond the basic training and monitoring levels would not be as

beneficial as focusing on other sites with larger currency transactions, such as the Landfill, and/or larger-volume sites with identified areas of concern, such as Animal Services.

5. Several locations lacked adequate procedures for documentation and approval of certain types of transactions.

As previously mentioned, Revenue Collections has set up specific site cash handling procedures and their last update is noted in the table above. The updated Cash Handling Manual will specify the documentation requirements for all transactions, and Revenue Collections will work with each facility to ensure their compliance. Although receipt issuance is among the more straightforward processes to implement (and therefore these two instances should be relatively easy to correct), others may present challenges due to staffing constraints. For example, it may not always be possible for a supervisor to approve a voided transaction in a timely manner for a customer, and it may be necessary to allow for flexibility and have the transaction approved later in the day.

RECOMMENDATION #5: ASD should ensure all travel payments are adequately and uniformly documented with appropriate oversight, by: 1) requiring consistent documentation of travel expenses, including: receipts or other supporting documentation, appropriate travel forms, and explanation of the business purpose of expense, 2) ASD Accounts Payable should perform spot checks of travel expenses.

ASD agrees with this recommendation

The current City travel policy is confusing, and an employee seeking reimbursement may follow incorrect information if they do not read the entire policy. ASD will rewrite the travel policy, review the Petty Cash policy and offer training to employees.

In addition, since travel reimbursements take many forms, such as payments to the employee, payments to vendors, and use of the Cal-card, Executive Staff (ES) card, petty cash and professional development funds, details of travel reimbursements are not always centralized and may be in multiple files.

Exceptions found in the Auditor's Report for check reimbursements comprised 6% of the total exceptions. The majority of these exceptions related to a missing statement of business purpose or proof of attendance. The Accounts Payable (A/P) Manager will emphasize importance of IRS required documentation with A/P staff and during training of City staff. .

Nighttime meeting meal reimbursements comprised about 10% of the total exceptions. Most of these exceptions were for nighttime meal reimbursements at the flat rate of \$20 without receipts. The current Petty Cash policy does not require receipts for these meals. Revenue Collections staff has been adhering to the Petty Cash policy. ASD staff will be updating the Travel and Petty Cash policies to be in agreement as part of the Auditor's recommended review of the travel reimbursement and nighttime meeting policies. The travel policy should have been updated to reflect no receipt required.

This and any other Petty Cash-related changes resulting from this review will be incorporated into the Petty Cash program, and ASD Revenue Collections will reimburse under the new guidelines. In addition, ASD will remind all staff of the Petty Cash documentation requirements.

The greatest share—58%—of exceptions were found in the use of the Executive Staff (ES) card. The majority of these exceptions were missing travel forms, although the receipts were always included in back-up documentation. Missing business purpose, location, name of attendees, as well as checking the pre-travel box were common exceptions. Payments for ES and Cal-cards are made directly to the bank and not to the employee, and are therefore not possible to “catch” before payment. However, ASD staff will be more diligent on follow-up with ES staff for documentation, including any emails requesting additional documentation. ASD director will also discuss the requirements with Executive Staff.

Cal-card exceptions are 12% of total exceptions. Employees failed to note business purpose, location and date when making travel arrangement and payment to a conference, hotel or transportation. In more than half the exceptions, the employee failed to check the box on pre-travel form, as well as not turning in a travel form even though they included receipts. ASD staff will review the layout of the pre-travel authorization form and travel expense report form and try to combine into one form (see Recommendation #9 below). The updated forms will be discussed as part of employee training and in the updated travel policy.

Professional Development forms comprised 9% of the total exceptions. HR staff administers Professional Development. The two areas of omission are completion of the checkbox on pre-travel or authorization and checking the box relating to requesting government rates. As stated above, ASD staff will rewrite travel policy and revise forms. ASD staff will include HR staff in employee training.

As for recommended spot-checks, ASD supports this idea. A/P staff currently reviews all employee travel reimbursement paid via check and spot checks other areas. Many of the exceptions occurred prior to the hiring of the current A/P Manager or during a hiring freeze when the position was open. The A/P Manager is also working with her staff to review audit exceptions and incorporate improved checking procedures.

RECOMMENDATION #6: ASD should review the nighttime meeting reimbursement policy. If the City decides to maintain this practice, ASD should report the amounts as income on employee W-2 forms to conform to IRS requirements. In addition, ASD should review other types of meal expense to ensure any reportable amounts are included on employee Form W-2s.

ASD agrees with the City Auditor’s recommendation. ASD learned earlier in 2010 that a case ruling in late 2009 dictated that reimbursements that did not have an overnight stay were to be considered taxable income. For the past several months, ASD has been discussing the issue of how to handle these nighttime meal reimbursements and has determined that handling such reimbursements through payroll would involve significant staff time. Staff is developing a process that will comply with the IRS regulation in the most economical and efficient fashion. Any change in reimbursements would be subject to meet-and-confer depending on the labor group.

RECOMMENDATION #7: ASD should consolidate the Executive Staff Credit Card Program into the existing Cal Card program.

Staff agrees in concept, but needs to verify that potential restrictions in the Cal Card program would not interfere with the intended use of the ES card.

Executive Cards were instituted many years ago so the most senior level management staff would have a method of payment available in case of a City emergency. Only 15 of the over 1,000 employees are authorized to use Executive Cards and not all of them are issued a card. Previous procurement card programs had significant limitations that would have impeded some procurements in an emergency (e.g., floods, power outages, etc.). Staff will review the Cal Card program to see if the limitations associated are minor and would not interfere with such procurements.

RECOMMENDATION #8: The City's Intranet site on employee ethics policies (Ethics Center) should include additional guidance to prevent gift of public funds.

The City Manager's Office agrees with the recommendation and will update this section of the Intranet.

RECOMMENDATION #9: ASD should coordinate and improve the travel payment process through the following:

- ***Update the City's Travel Policy and integrate the pre-travel authorization form and travel expense report into one travel report form to document supervisory approval, business purpose of the trip, an accounting of actual expenses, and requirement for employees to certify they did not receive reimbursement from any other source.***
- ***Implement the City's policy requirement to file all travel expense reimbursement forms with ASD Accounts Payable.***
- ***Alternately, ASD could consider activating the travel expense management capabilities of SAP.***

City's Travel Policy: ASD agrees. The current forms and process were developed to comply with a prior City Auditor's recommendation. However, the exceptions discussed above illustrate the potentially confusing nature of having two separate forms. ASD will update and combine the pre-travel authorization form and travel expense report into one travel report form. ASD will also add a box for employees to check to certify that they have not received reimbursement from any other source.

Filing travel reimbursement forms with A/P: ASD agrees and will clearly state in the updated policy that it is the department's responsibility to send ASD complete forms with all supporting receipts regardless of the payment method.

Use of SAP for travel expense management: ASD will consider this alternative for the future. To implement a new SAP module requires funding and staff time. Given the City's continued strain

on resources, a cost benefit analysis must be considered. For FY 2010, A/P staff reviewed and processed 33,977 transactions for a payment amount of \$18.4 million. Of this, 1,695 transactions, or 3%, totaling \$530,000, were related to travel.

RECOMMENDATION #10: ASD should revise the City's Travel Expense Reimbursement Policy to help ensure employees select the most economical means of travel, including restricting the use of hotels during local travel and authorization for extended travel times.

ASD agrees and will emphasize in the Travel Policy that employees should always select the most economical means of travel. The prior audit of travel reimbursement processes instituted several check points to ensure employees took advantage of least-expensive opportunities. ASD will always encourage the use of the most economical means of travel, but it can only encourage the direction; it cannot ensure that employees comply. If it is evident that employees are not seeking such savings, ASD staff will bring it to the attention of the department head to address. ASD agrees that there should be a limitation to overnight stays within a certain distance of home or office. The policy will have exception for stays that require long days or early starts.

RECOMMENDATION #11: To assist in budget development and tracking of taxable activities, ASD should reorganize the existing general ledger travel-related accounts into a "Travel and Training" account for professional development and a "Meetings" account for nighttime and other non-professional development meetings.

ASD agrees. ASD staff will update the chart of accounts, change the City Travel policy, update forms and discuss during City training.



FINANCE COMMITTEE

Special Meeting
Tuesday, September 21, 2010

Chairperson Schmid called the meeting to order at 8:02 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Schmid (Chair), Espinosa, Klein, Scharff

Absent: none

1. Oral Communications

None.

2. Audit of Citywide Cash Handling and Travel Expenses.

City Auditor Lynda Brouchoud reviewed the Audit of Citywide Cash Handling and Travel Expenses. She said the objective of the audit was to review City's cash handling, travel expenses and to provide an overview of prior audits in these areas. She said the scope of the audit included cash reviews at 13 City revenue collecting locations and 525 travel-related expenses processed between FY 2008 through FY 2010. She said they also reviewed prior audits relating to cash handling, operations, and travel expenditures. She said that travel expenditures have decreased over the last couple of years. Travel expenses typically fall into one of two categories; Travel and Meetings or Instruction and Training. She said regarding cash handling, that in addition to ASD Revenue Collections, there were 22 locations that collect funds. The policy is administered by Revenue Collections. Travel expenses were last audited in 1998 and had some recommendations to improve oversight of travel which were completed in 2006. The external financial auditors have audited cash handling operations. In 2007, there was an overall audit of the Library operations, resulting in recommendations related to cash handling that have been implemented. She spoke about improvements that had been made regarding to cash advances processed by the City.

Council Member Klein commented that it seemed to take a long time to have documentation submitted.

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Ms. Brouchoud said there could be a time period between the request, the trip, and the submittal of documentation.

Council Member Klein said he would have thought that employees would submit the paperwork within in a few days of returning.

Senior Auditor, Ian Hagerman said that the travel advances can be requested up to 30 days before the travel.

Council Member Klein said his concern was focused on the submittal of paperwork by the employee after they return.

Mr. Hagerman said the employee has 30 days to submit documentation. This creates up to a 60 day window where a travel advance is open.

Ms. Brouchoud said the request is considered open from the time they submit documentation until the time the return and are reimbursed.

Council Member Klein wanted to know if that was in line with industry standards.

Mr. Hagerman stated that the IRS requirement is 120 days.

City Manager, James Keene said they have no method to track how far in advance people are requesting the advance within that 30 day window.

Council Member Klein said it was a meaningless number with all the uncertainties.

Director of Administrative Services, Lalo Perez said the majority of the support Staff has credit cards that they now use to make reservations for seminars, hotel, and air travel. The amount requested in cash advances are much smaller amounts than it used to be. Most travelers have their own City issued Cal Card.

Mr. Keene said they were reviewing just the cash advances.

Vice Mayor Espinosa said they need to understand that there are 2 parts. He asked if they could break down the time so they could determine what was happening before and after the travel. They need to then understand whether or not the process is a best practice.

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Chair Schmid asked if that were a question for the City Auditor or Administrative Services.

Mr. Perez said that Staff could put this in context to understand how many cash advances are handled, what the typical timeline is, and then we could look at the dollar amounts to determine what the exposure is.

Council Member Scharff asked why employees can't just use their own money and seek reimbursement after.

Mr. Keene said many employees do that already. He said Council Member Scharff's question wasn't an Audit question as much as it was a policy question.

Council Member Scharff asked if a policy change would be reviewed.

Mr. Keene said typically they would respond to the Audit recommendations.

Ms. Brouchoud said they do not have a recommendation on cash advances. The Committee could request follow up.

Mr. Perez said the policy could be reviewed. He cautioned that it could create a situation where an employee could not afford to travel for the organization.

Vice Mayor Espinosa said they could set up a department credit card that is managed by one person but able to loaned to another person if they need to travel.

Mr. Perez said that Staff could review that.

Ms. Brouchoud said there was some exposure to double reimbursements. She said it was very challenging to detect this. She said they identified two instances of double reimbursement found during the audit, but it's difficult to tell if that's the extent of the problem. The fact that we did identify the two instances indicates some vulnerability there and right now the City doesn't have adequate controls to detect that. She said in the first audit finding they looked at internal controls for cash handling. The City has a citywide cash handling policy that is 20 years old and needs to be updated. The policy includes a cash handling manual and Staff was unable to locate documentation that included all of elements that the policy said it would. She said they reviewed three main areas at 13 cash handling locations. The first was segregation of duties which entails making sure that someone isn't processing a transaction and later approving it. The second was

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safeguarding of revenue. Lastly, they reviewed documentation and approval of all types of transactions including voids, refunds and receipting all types of transactions.

Chair Schmid asked for clarification regarding the Cash Handling Manual.

Ms. Brouchoud said the actual City Policy was attached to the report. Within in the policy are references to a Cash Handling Manual that Staff was unable to locate. Continuing her presentation, she said the audit noted that improvements could be made at each location; safeguarding of revenue needed the most improvement. Revenue Collections was working with each site to address the issues.

Vice Mayor Espinosa asked what the spot checking methodology was to insure the City Auditor was reviewing a representative audit.

Ms. Brouchoud said that sites were chosen based on prior audits, the amount of transactions processed, and the risk level. Continuing with the presentation, she said there were four recommendations for cash handling internal controls. The first recommendation was to update the Citywide Cash Handling policy, and ASD was already working on it. The second recommendation was to improve the oversight program through consistent training, routine visits, and surprise reviews based on a risk assessment that ASD can do. The third recommendation was to create procedures for processing transactions on-line. The fourth recommendation was to work with departments to immediately address the areas noted in the audit. She said, regarding travel, the oversight can be improved. There are five different payment methods with varying oversight. They identified exceptions in 43% in their test sample of 525 travel reports. Some of the exceptions are minor and some could be higher risk. The audit also identified additional methods to ensure that employees select the most economic travel options.

Council Member Klein asked about City Policy that dictates allowances for hotels, and other travel related expenses.

Mr. Perez said the current policy requires employees to seek out government rates, but it does not specify the lowest rate.

Assistant to the City Manager, Kelly Morariu said the Policy does encourage employees to take the greatest discount.

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Mr. Keene said the policy does limit travelers to economy class airfare.

Council Member Klein said he hoped the policy was in place to make sure those practices were followed. He stated that in some instances the government rate may not be the best rate. The best rate may be a hotel five miles away from the conference.

Ms. Brouchoud said it was a policy decision. They could delineate it as something that should be considered. Currently, Staff did not see that mentioned in the policy, and they recommended it should be added. Continuing with her presentation, she said guidance regarding gifts of public resources was needed. There were some transactions where non employees could be taken out to lunch. She said there had been some changes with the IRS regarding taxable income relating to some reimbursements and this should be addressed in the policy.

Council Member Scharff asked for clarification regarding the policy for reimbursement when Staff attends a night meeting.

Ms. Brouchoud said currently Staff can receive meal reimbursement for up to \$20.

Council Member Scharff clarified that the IRS changes now consider that compensation rather than reimbursement for expenses.

Mr. Keene said as a result of the audit Staff may have some different recommendations.

Council Member Scharff asked what the policy was regarding Staff paying for lunch for a non-employee.

Mr. Keene said he was responsible for some of the charges. Situations such as when a consultant comes and spends the day giving the City free advice, we might treat them to lunch.

Council Member Scharff said that was his point. The policy seemed too harsh.

Mr. Keene said the policy should set clear parameters.

Mr. Perez said that page 40 of Attachment One did outline some situations where Staff could purchase lunch for someone that is not a Staff member.. He said it was important to make sure that policy matched the ethics policy.

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Mr. Keene said the intention is good but the policy needed to be followed correctly.

Ms. Brouchoud said the recommendation was coming from guidance from the State Attorney General which advises against this practice. She suggested clear guidance should be provided in the policy. She spoke regarding the multiple payment methods for travel related expenditures. One method was the credit card program for the Executive Staff. The City also has a professional development program which is processed through Human Resources. Petty Cash can be used to reimburse amounts less than \$150, and there is check reimbursements. Employees submit travel forms and receipts for each payment method. The recommendation is for the level of review across each payment to be more consistent

Council Member Scharff asked if the City Auditor was suggesting the Executive Credit Card program should be eliminated.

Ms. Brouchoud confirmed that was the recommendation.

Mr. Hagerman reviewed exceptions identified during the travel expense review. He said the nighttime reimbursement exception was in reference to how the reimbursements were distributed. The policy stated that actual reimbursements up to \$20 would be allowed, but the practice was to reimburse a flat \$20. The current travel process is uncoordinated. They request information from departments regarding the coded transactions used. The audit testing was initially structured to test transactions based on how they charges were coded. The accounts were not consistently used. The recommendation is to review how travel-related codes are used. He said there was a total of seven recommendations related to the City's travel payment process including more consistent oversight, consolidating payment methods and reimbursement forms.

Council Member Scharff said he was concerned about how money it would take to implement another SAP module, and he was concerned about adding layers of bureaucracy to the policy.

Chair Schmid asked about the recommendation to consolidate the Executive Staff credit card to Cal Card program even though it seemed to be the weakest and most vulnerable of the payment systems.

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Ms. Brouchoud said the Cal Card is the least risky credit card payment method available. She said a separate audit is currently being conducted on the credit card program.

Chair Schmid said the Audit found 68% exception rate with the Cal Card.

Ms. Brouchoud said it was the highest exception rate, but many of the exceptions were minor. She said that there are some internal control functions with the Cal Card that are not available with the credit cards. There are only 12 credit cards being used by the Executive Staff whereas there are over 200 Cal Cards. Cal Card also has an existing training program and a manual for users that serves as an internal control program that the Executive Staff program doesn't have.

Mr. Perez reviewed the cash advances for July-September 2009. They totaled \$3,041, and of that \$1,986 was used for 3 trips worth of lodging and per diem. The rest were per diems and ground transportation. He said the policies have been updated over time. Adding training and monitoring is important. Streamlining the process is a good step. His department was in the process of implementing cash handling training. He added that working with other departments to review the Executive credit card program was also important. He said that removing the cash from the revenue collection process removes some of the risk and they were implementing processes to use less cash. He said that overall given the resources he felt the City was doing well through internal controls. He said they needed to assess the risk and determine the cost of implementing new processes. He said he was not in favor of moving away from credit card use because it provided an audit trail.

Mr. Keene suggested the Audit was recommending a restricted use of the credit cards versus an elimination of the program.

Mr. Perez said there are restrictions for the 200 Cal Card users as well as restrictions for the 12 Executives that use the credit card. The double reimbursement issue was a concern. The transactions in question were for Professional Development. The reimbursement went to the Employee instead of the City account. It was satisfied through ICMA. He reviewed the employee reimbursement process for the Committee stating that the City was obligated to reimburse Staff for the Professional Development charges. Referring to the Executive Credit Card program he said it could be detrimental to restrict Executives to the Cal Card. He said training and retraining can be done fairly quickly and it's important. Risk assessments should be part of the process. He planned to work with the City Manager's Office to determine a response to those

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recommendations that required additional Staff time. He said that in his review of the 225 exceptions 34 were for missing purposes of the meeting. There was no explanation for why it was needed. Seventy seven did not submit the required forms, 71 of those 77 were senior level Staff. Forty nine had missing check marks on the forms. That totaled out to be 160 of the 225 that were not dollar risks, they were procedural issues. This lowers the exceptions down to 12%, which still was not acceptable, but showed a different situation.

Ms. Brouchoud acknowledged City Staff for their assistance. She agreed with Mr. Perez's statements regarding Staff being inundated and there was a level of risk tolerance that must be determined. She said there were many recommendations that can be fixed with minimal effort such as locking the safe and changing the access codes when needed. There may be some instances that would require additional work. Some recommendations are focused on updating policies. She also stated that the audit presented SAP as an option to coordinate the travel process with the existing capabilities of SAP.

Chair Schmid said the Committee would need to accept the report, send it to the full Council, and make any recommendations from Committee.

Council Member Scharff said he assumed the Committee would accept report and send it to Council. He said he thought Mr. Perez's comments indicated they should not accept the report but rather ask Staff to review the recommendations and determine which ones should be implemented. He said that as a Committee they did not have enough information to approve recommendations that might cost more than they would be worth.

Vice Mayor Espinosa said that many audit reports require much more study and analysis but they do not wait for that before approving the report and sending it to Council. He said it would be helpful to know when they would see this report again. He reminded Staff how important it was to have a timeline.

Chair Schmid said there were discreet steps, the first one being the City Auditor makes the report and the Committee accepts it. Next would be a series of steps that take place over time and would include a dialogue between City Staff and the Auditor.

Mr. Keene said the City Auditor periodically reports out regarding the status of outstanding audit recommendations.

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Council Member Klein said those reports also allows an opportunity for Council to direct Staff if needed.

Council Member Scharff asked if voting to approve the audit is an agreement with the recommendations.

Chair Schmid said that accepting the audit was a first response indicating that the City Auditor complied a professional and through report.

Ms. Brouchoud said they ask departments if they agree or do not agree with each recommendation. The information Mr. Perez presented indicated he would like some time to research the recommendations in more depth.

Council Member Scharff confirmed that there was no bias in approving the report.

Chair Schmid said they could make recommendations for further study.

Ms. Brouchoud said there was agreement on recommendations; the question was how much time it would take to look at the recommendations.

Chair Schmid noted that each recommendation response began by stating that "Staff agrees."

Council Member Scharff said that he didn't see that link. Mr. Perez thought his discussion tonight was much stronger than in the report.

Mr. Perez said part of the issue was the he agreed with the report in concept, but wanted to evaluate the costs and benefits before committing.

Council Member Scharff said that was what he wanted to make sure happened.

Mr. Keene said it is an evolving process.

Council Member Scharff said he would support Mr. Perez reviewing the recommendations so he can provide the Committee with the cost of the recommendation compared to the potential risk.

Vice Mayor Espinosa said he tends to read these reports for Staff comments so that he has a better idea of what could actually happen. He reiterated that a timeline associated with necessary follow-up is helpful.

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Chair Schmid said that back in 1998 the City Auditor's Office issued a report on travel expenses recommending that Administrative Services take action, and in 2001 Staff reviewed and determined that with minor exceptions they were doing well. He asked how it was an issue but the response said things were fine. He asked if the process they were going through now going to help with oversight or would they run into the same issues in the future.

Mr. Perez said there were no guarantees. All of the processes and procedures can be in place, and fraud can still occur. Minimizing the risk is the point.

Chair Schmid agreed but asked if this would provide culpability. He cited the Children's Theatre as an instance where no one took responsibility.

Mr. Perez said the Children's Theatre was a unique situation. Employees did not follow procedures, conducted activities that were not normally done, and ASD did not follow up as they should have.

Chair Schmid asked if there were procedures in place now that would prevent that type of situation.

Mr. Perez said the procedures are better now. For example they don't give large advances anymore, credit cards are used. He said the risk had been minimized.

Chair Klein suggested they not debate this issue as it would take too long. He said there was a 3rd element with the over reaction by the Police Department.

Chair Schmid said he wanted to make sure that the City Auditor and ASD would have to be involved.

Vice Mayor Espinosa said the 1998 audit was focused on coding rather than cash handling.

Chair Schmid said that it was striking that there was still a barrier with SAP preventing a centralized document system.

Mr. Perez said he was opposed to coming back and asking for more money for SAP. He said he needed to do an assessment of SAP concerns with document storage and potential costs to use the travel module.

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Chair Schmid said there were five different departments using five different software components. He suggested working toward the goal of a centralized system.

Mr. Perez said they want to use technology when possible.

Chair Schmid asked about the statement in the report that indicated the City Travel Policy was implemented to conform to a previous recommendation.

Mr. Perez stated that they designed the forms jointly. The City Auditor at the time had discussed the amount of time it took to reimburse an employee. They made a change in the Petty Cash Policy and the SEIU Labor Agreement to amend the situation, but not in the Travel Policy. They need to review the form and determine how it can be more efficient.

Chair Schmid asked if they could respond to a specific recommendation with a specific fix, while keeping in mind the overall goal of a coordinated travel policy.

Mr. Perez agreed that it needed to be coordinated.

MOTION: Council Member Klein moved, seconded by Vice Mayor Espinosa that the Finance Committee accepts the Audit of Citywide Cash Handling and Travel Expenses and forwards the report to the City Council.

MOTION PASSED 4-0.

Chair Schmid asked if the report should go on the Consent Calendar or if it should be open for public comment.

Council Member Scharff recommended it should go on Consent.

Mr. Perez said his intent was to get responses in during the current fiscal year.

Chair Schmid confirmed that the item would go on the Council Consent Calendar.