



Office of Inspector General

City of New Orleans

Follow-up Report: A Report on the French Market Corporation's Credit Card and Expense Reimbursement Policies

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Expense Reimbursement Policies
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Executive Summary..... 2

I. Objectives, Scope and Methodology 3

II. Follow-up Results..... 4

A. FMC Credit Card Follow-up Results:

Follow-up # 1: The FMC adopted a written credit card policy, but cardholders in management positions approved their own expense reports.

Follow-up # 2: FMC employees consistently provided receipts for their credit card purchases in accordance with the written credit card policy.

Follow-up # 3: FMC employees consistently submitted expense reports for each credit card transaction in accordance with the written credit card policy.

Follow-up # 4: The FMC included a discussion of allowable business expenses in a written policy signed by all employees with access to credit cards, but this policy did not include the requirement that cardholders must reimburse the FMC for disallowed expenses.

Follow-up # 5: The FMC’s written credit card policy stated that monthly statements should be paid by the due date to avoid late charges, but the FMC continued to incur late fees and finance charges.

Follow-up # 6: No cash or cash equivalent items were given to FMC employees during the period tested.

Follow-up # 7: The FMC enforced the revised Accounting Policy and Procedure Manual’s prohibition of cash or cash equivalent gifts to employees.

Follow-up # 8: The FMC revised the Accounting Policy and Procedure Manual to forbid the splitting of invoices exceeding \$2,000 into separate payments and enforced the revised policy.

B. FMC Expense Reimbursement Follow-up Results:

Follow-up # 9: FMC employees submitted the required support to accounting before expenses were reimbursed in accordance with policy.

EXECUTIVE SUMMARY

In June 2011, the Office of Inspector General (OIG) issued the *Report on the French Market Corporation's Credit Card and Expense Reimbursement Policies* (the 2011 Report).

The objective of the 2011 Report was to evaluate the effectiveness of the French Market Corporation's (the FMC) internal controls over employee credit card transactions and reimbursements. The 2011 Report resulted in eight findings concerning internal controls over credit card transactions and one finding concerning expense reimbursements. The nine recommendations were intended to improve and clarify the FMC's accounting policies and procedures in order to decrease the opportunity for waste and abuse.

The follow-up report concluded that the FMC fully implemented six of the nine recommendations from the 2011 Report and partially implemented the remaining three recommendations¹. The FMC adopted a written credit card policy signed by employees with access to credit cards. Employees consistently turned in the required support for credit card transactions in accordance with the revised policy. FMC employees discontinued the practice of receiving cash or cash equivalent gifts which was previously allowed in violation of the state constitution. Additionally, the revised policy forbade the splitting of invoices into separate payments to circumvent approval controls. Follow-up testing indicated compliance with the revised policy.

Although the FMC's written credit card policy established review and approval procedures for credit card purchases, FMC employees in management positions approved their own expense reports (Follow-up # 1). The revised Accounting Policy and Procedure Manual required employees to reimburse the FMC for disallowed credit card charges; however, the separate credit card policy read and signed by employees did not cite this requirement (Follow-up # 4). The FMC continued to incur late and finance fees despite revising the policy to require that the monthly balance be paid in full by the due date to avoid such fees (Follow-up # 5).

The OIG will perform a second follow-up on the partially implemented FMC Responses.

¹ Follow-ups # 1, # 4 and # 5 concluded that the FMC only partially implemented its 2011 Report's responses. These responses will require a second follow-up.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the follow-up report was to determine whether the actions proposed in the FMC's response to the recommendations from the 2011 Report were implemented and operating effectively.

The scope of the follow-up was limited to the FMC's responses to the 2011 Report. The period of July 1, 2011 through June 30, 2012 was used as the period tested during the follow-up.

The methodology was developed in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book). The auditor's methodology included the following:

- Planned the engagement in accordance with the above mentioned principles;
- Evaluated the FMC's responses to the 2011 Report to determine if the recommendations were adopted and effectively implemented;
- Reviewed and discussed the FMC's Accounting Policy and Procedure Manual² with FMC management to determine that OIG recommendations were implemented and were operating effectively;
- Reviewed the check register, all credit card statements and Board minutes for the period July 1, 2011 – June 30, 2012;
- Selected 60 transactions from the credit card statements and tested that all required support was submitted for each transaction in accordance with written policy, and;
- Reported on the results of the follow-up.

Computer-processed data was provided and relied on during testing, which detailed information on credit card and expense reimbursement transactions. Although a formal reliability assessment of the computer-processed data was not performed, the auditors determined that hard copy documents reviewed were reasonable and generally agreed with the information contained in the computer-processed data. No errors were found that would preclude us from using the computer-processed data to meet the report's objectives or that would change the conclusions of this report.

² The FMC revised the Accounting Policy and Procedure Manual in June 2011 in response to the recommendations in the 2011 Report.

II. FOLLOW-UP TO FMC RESPONSES

A. CREDIT CARD FINDINGS:

Finding # 1:

Condition: “The FMC Accounting Policy and Procedure Manual lacked a written credit card policy.”

Recommendation: “The FMC should develop a written credit card policy to be included in an updated Accounting Policy and Procedure Manual. At a minimum the policy should indicate:

- Employees authorized to use the credit cards;
- Allowed and disallowed credit card uses;
- Required receipts and other supporting documentation that should be maintained by cardholders; and
- Officials designated to review and approve each cardholder’s reconciled monthly statement and corresponding support prior to payment.”

FMC Response: “The FMC’s Accounting Policy and Procedure...has been revised to include a written credit card policy.”³

Follow-up # 1: The FMC’s revised Accounting Policy and Procedure Manual included a section on credit cards and added a separate Corporate Credit Card Policy that addressed the minimum requirements outlined in the OIG recommendation.

While reviewing the Corporate Credit Card Policy, the auditors noted that the Executive Director and FMC employees in supervisor positions approved their own expense reports on all transactions tested. The Corporate Credit Card Policy did not indicate who should sign off on the Executive Director’s and supervisors’ expense reports to ensure that the reports were approved by someone other than the cardholder. The Executive Director should sign off on all expense reports, except his own, in compliance with the Corporate Credit Card Policy.

³ The FMC also adopted a separate Corporate Credit Card Policy in addition to the Accounting Policy and Procedure Manual mentioned above. The revised Accounting Policy and Procedure Manual required all employees with access to credit cards to read and sign the separate Corporate Credit Card Policy. See Follow-up # 4.

Finding # 2:

Condition: “FMC employees assigned credit cards did not consistently turn in the required supporting documentation⁴ for all credit card transactions.”

Recommendation: “The FMC should enforce the policy that original receipts and invoices be submitted for all credit card transactions. Failure to provide original receipts should require the employee to pay for the expense. This should be included in the written policy described in Recommendation # 1.”

FMC Response: “In accordance with the revised Accounting Policy and Procedure all cardholders are required to turn in supporting documentation for all credit card charges.”

Follow-up # 2: The auditors’ test of credit card transactions indicated that FMC employees consistently provided receipts for their purchases as required by the revised Accounting Policy and Procedure Manual. The revised manual also required reimbursement⁵ for any credit card charges deemed inappropriate.

Finding # 3:

Condition: “FMC employees with company credit cards did not consistently provide the required business purpose for each credit card transaction.”

Recommendation: “The FMC should enforce the policy that employees provide an explanation of the business purpose of each expense for all credit card transactions. This should be included in the written policy suggested in Recommendation # 1.”

FMC Response: “In accordance with the revised Accounting Policy and Procedure all cardholders are required to record on an expense report the business purpose for all credit card charges.”

Follow-up # 3: The auditors’ test of credit card transactions indicated that FMC employees consistently submitted expense reports with an explanation for each credit card transaction, as required by the revised Accounting Policy and Procedure Manual.

⁴ Employees with credit cards were verbally instructed that they should turn in all original receipts or invoices to the accounting department for each credit card transaction.

⁵ Although the revised Accounting Policy and Procedure Manual required cardholding employees to reimburse the FMC for disallowed credit card charges, the separate Corporate Credit Card Policy signed by employees did not mention this. See Follow-up # 4.

Finding # 4:

Condition: “The Accounting Policy and Procedure Manual contained an overly broad definition⁶ of allowable expenses that employees could charge to their credit card or for which they could be reimbursed.”

Recommendation: “The FMC should include a discussion of allowable business expenses as well as expenses that are specifically disallowed in its Accounting Policy and Procedure Manual. This policy should be read and signed by all employees and employees with company credit cards should be required to reimburse the FMC for any disallowed expenditures.”

FMC Response: “The Accounting Policy and Procedure Manual have been revised to add the definition of allowable expenses that can be charged by cardholders or reimbursed.”

Follow-up # 4: The FMC included a discussion of allowable business expenses in the Corporate Credit Card Policy. A Corporate Credit Card Policy Acknowledgement form⁷ was signed by all employees with access to credit cards.

Although the revised Accounting Policy and Procedure Manual required cardholding employees to reimburse the FMC for any inappropriate credit card charges, the separate Corporate Credit Card Policy read by employees did not mention this. This requirement should be added to the Corporate Credit Card Policy.

Finding # 5:

Condition: “The FMC often incurred finance and late charges relating to payment of the monthly credit card statements.”

Recommendation: “The FMC should address the process by which credit card and business account statements are approved and paid to avoid unnecessary finance and late charges.”

FMC Response: “The Accounting Department has taken steps to assure that all credit card accounts are paid timely.”

Follow-up # 5: Although the FMC’s Corporate Credit Card Policy required the monthly balance be paid in full by the designated due date, the FMC continued to incur late fees and finance charges during the period tested.

⁶ The Accounting Policy and Procedure Manual stated that employees “write a short explanation of the expense, include the event to be attended, the city where the event will take place and the dates of travel” for meals, travel, entertainment and any other expenses.

⁷ The signed Corporate Credit Card Acknowledgement stated that the cardholding employee had read the Corporate Credit Card Policy and agreed to abide by the responsibilities as set forth in the Policy.

Finding # 6:

Condition: “Gift cards purportedly given to employees were not being properly accounted for under IRS guidelines.”⁸

Recommendation: “All cash or cash equivalent items provided to employees by the FMC must be included as taxable income to the employee receiving the item.”

FMC Response: “The FMC will not issue gift cards to its employees. In accordance with the revised Accounting Policy and Procedure the FMC is prohibited from issuing gift cards to City of New Orleans employees.”

Follow-up # 6: The FMC enforced the revised Accounting Policy and Procedure Manual’s prohibition of cash or cash equivalent gifts to employees. During the review of the Board minutes, monthly credit card statements and transactions, the auditors noted no cash or cash equivalent gifts issued to FMC employees.

Finding # 7:

Condition: “During testing of FMC credit card transactions, the auditors noted several large purchases of holiday gift cards for employees. The purchase of gift cards for employees violated the Louisiana Constitution’s prohibition on the donation of public funds.”

Recommendation: “FMC should discontinue the practice of purchasing gift cards for employees with FMC operating funds. The revised Accounting Policy and Procedure Manual mentioned in Recommendation # 1 should include a description of prohibited uses of funds.”

FMC Response: “The FMC will not issue gift cards to its employees. In accordance with the revised Accounting Policy and Procedure the FMC is prohibited from issuing gift cards to City of New Orleans employees.”

Follow-up # 7: The auditors’ review of the Board minutes, monthly credit card statements and transactions indicated that the FMC enforced the revised Accounting Policy and Procedure Manual’s prohibition of cash or cash equivalent gifts to employees.

⁸ Sam’s Club and Master Card gift cards distributed to employees as Christmas gifts were not included in wages on Form W-2.

Finding # 8:

Condition: “The FMC circumvented the existing control and allowed expenses to be divided into smaller amounts to eliminate the need for a second signature. The FMC engaged in the practice of paying larger invoices in multiple payments to bypass required authorization procedures for cash disbursements.”⁹

Recommendation: “The FMC should forbid the practice of splitting payments to circumvent the control of requiring two signatures for purchases in excess of \$2,000. Any violations of this policy should be reported to the board.”

FMC Response: “The Accounting Policy and Procedure Manual have been revised to include language that prohibits the splitting of payment of expenses that exceed \$2,000.00.”

Follow-up # 8: The auditors’ review of the check register indicated that FMC enforced the revised policy.

B. EXPENSE REIMBURSEMENT FINDING:

Finding # 9:

Condition: “The special requirements for travel advances described in the Accounting Policy and Procedure Manual were not consistently enforced.”¹⁰

Recommendation # 9: “The FMC should enforce the Expense Statement policy requiring that all original receipts are attached to the expense statement and an explanation of the business nature of the expense should be provided with each receipt.”

FMC Response: “All requirements will be enforced in accordance with the Accounting Policy and Procedure Manual.”

Follow-up # 9: The auditors’ review of expense reports indicated that FMC employees submitted the required support to accounting before expenses were reimbursed in accordance with policy.

⁹ The FMC’s Accounting Policy and Procedure Manual stated that “any checks exceeding \$2,000 require two signatures.”

¹⁰ The travel policy required that an expense report be submitted to report all expenses when a travel advance was made. This expense report should include all original receipts with explanations of the business nature of each expense.