



# Office of Inspector General

City of New Orleans

## Follow-Up Report: A Review of New Orleans Aviation Board Credit Card Activity

AR13FOL001

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<sup>1</sup> The follow-up covered the period July 1, 2012 through December 31, 2012.

## EXECUTIVE SUMMARY

In March 2012, the Office of Inspector General (OIG) issued *A Review of the New Orleans Aviation Board's Credit Card Activity* (prior report), which evaluated the effectiveness of the New Orleans Aviation Board's (NOAB) internal controls over the use of NOAB credit cards by employees. The prior report resulted in twelve findings related to internal controls over credit card transactions. A follow-up review was conducted to determine if the NOAB had implemented the corrective actions it agreed to in its response to the prior report.

Credit card activity decreased significantly for all NOAB credit card accounts during July 1, 2012 – December 31, 2012 when compared to the same six month period covered in the prior report<sup>2</sup>. Total credit card transactions decreased by 667 or 89% and the total dollar amount of those credit card purchases decreased by \$116,089 or 87% (See table below).

The follow-up report concluded that the NOAB revised its policies in response to all twelve corrective actions in the prior report and consistently enforced those revised policies. NOAB employees turned in the required support along with written explanations for all credit card transactions tested. Credit card expenses were properly approved in accordance with the revised policies before the statements were paid and the NOAB enforced the disallowance of personal charges on NOAB credit cards for all transactions tested. Cardholders made reasonable effort to purchase airline tickets at the lowest available rate and travel requests were properly approved and limited to events that were directly associated with airport business. The auditors did not note any expenses that were in violation of the Louisiana Constitution's prohibition of the donation of public funds. No cash advances or alcohol purchases were made on NOAB credit cards during the period tested. Additionally, the NOAB requested and received full reimbursement from the former Board Chairman for personal expenses noted in the prior report.

### Comparison of NOAB Credit Card Activity 2008 vs. 2012 (Six month period)

	PERIOD TESTED				(Decrease) in Credit Card Activity 2008 vs. 2012	
	7/1/08 - 12/31/08		7/1/12 - 12/31/12			
NOAB Credit Card Account	Number of transactions (A)	Total Dollars (B)	Number of transactions (C)	Total Dollars (D)	Decrease in Number of transactions (C)-(A)	Decrease in Dollars (D)-(B)
Director of Aviation	173	\$22,428	24	\$1,541	(149)	(\$20,887)
Board Chairman	32	\$25,872	N/A <sup>3</sup>	N/A	(32)	(\$25,872)
Deputy Director of Finance	21	\$10,524	N/A <sup>4</sup>	N/A	(21)	(\$10,524)
NOAB Staff	524	\$75,049	59	\$16,243	(465)	(\$58,806)
<b>TOTALS</b>	<b>750</b>	<b>\$133,873</b>	<b>83</b>	<b>\$17,784</b>	<b>(667)</b> 89% Reduction	<b>(\$116,089)</b> 87% Reduction

<sup>2</sup> The prior report covered the period January 1, 2008 – October 31, 2010.

<sup>3</sup> The Board Chairman and the Deputy Director of Finance no longer have their own NOAB credit card.

<sup>4</sup> Ibid.

## I. OBJECTIVES, SCOPE, AND METHODOLOGY

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The objective of the follow-up report was to determine whether the NOAB implemented the corrective actions promised in its response to the prior report.

The scope of the follow-up was limited to the NOAB responses to the twelve findings in the prior report. The follow-up reviewed credit card activity on all NOAB credit card accounts during the period July 1, 2012 through December 31, 2012.

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 NOAB responses to the prior report to determine if the corrective actions were adopted and effectively implemented;
- Reviewed the NOAB revised credit card, business expense and travel policies<sup>5</sup> to determine that NOAB corrective actions were implemented;
- Reviewed all credit card statements for the period July 1, 2012 – December 31, 2012;
- Selected 30 transactions from the credit card statements and tested that all required support was submitted for each transaction and the expenses were properly approved in accordance with NOAB policy and;
- Tested that the NOAB corrective actions were implemented and operating effectively.

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.

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<sup>5</sup> The NOAB revised these policies in response to the recommendations in the prior report.

## II. FOLLOW-UP TO NOAB RESPONSES

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### **Finding # 1:**

**Condition:** “NOAB employees and the former Chairman, who were assigned credit cards, did not consistently turn in the required supporting documentation for each credit card transaction.”

**Recommendation:** “The NOAB should enforce the policy that original receipts and invoices be submitted for all credit card transactions. Cardholders who fail to provide original receipts should be required to pay for the expense with personal funds.”

**NOAB Response:** “Agree, to the extent that supporting documentation was not located to support credit card transactions. The Board and the Executive Director adopted new credit card policies in January 2011 that require the user of a credit card to maintain and submit ‘receipts for all purchases, as well as packaging receipts, ordering documents or documentation that includes the description of items and prices in which a receipt is not generated’ for each transaction. These policies are being enforced.”

**Follow-up # 1:** The NOAB enforced the stated corrective action. As indicated in NOAB’s response cardholders submitted original receipts and invoices for all transactions tested in accordance with the revised credit card policy.

### **Finding # 2:**

**Condition:** “NOAB employees and the former Chairman did not provide the required business purpose for each credit card transaction.”

**Recommendation:** “The NOAB should enforce the existing policy that requires NOAB cardholders to provide a written explanation of the business purpose of each expense for all credit card transactions.”

**NOAB Response:** “Agree, to the extent that supporting documentation was not located that stated a business purpose for each credit card transactions. The Board and the Executive Director adopted new credit card policies in January 2011 that require the user of a credit card to submit an ‘explanation for each charge incurred’. These policies are being enforced.”

**Follow-up # 2:** The NOAB enforced the stated corrective action. Cardholders provided a written explanation for each expense on a Credit Card Reconciliation Report or a Travel Authorization Form<sup>6</sup> for all transactions tested.

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<sup>6</sup> Cardholders completed Travel Authorization Forms for pre-approved travel expenses (airfare, hotels, registration fees) and Credit Card Reconciliation Reports for all other business expenses that NOAB credit cards were used for.

**Finding # 3:**

**Condition:** “As a result of insufficient approval controls<sup>7</sup>, Credit Card Reconciliation Reports were not submitted for each expense and sufficient documentation was not provided describing the business purpose of each expense.”

**Recommendation:** “The NOAB should enforce its credit card policy requiring all employees and Board members to document each expense on a Credit Card Reconciliation Report. The NOAB’s written credit card policy should be updated to require that the review and approval of Credit Card Reconciliation Reports be performed by someone other than the person submitting the report. The Director’s reconciliation reports should be approved by a member of the Board.”

**NOAB Response:** “Agree. The Board and the Executive Director adopted new credit card policies in January 2011. Under the new policies, the Executive Director’s expenditures are reviewed and approved monthly by the Board Chairman; and, for staff, the user must submit the ‘receipt and explanation for each transaction to their respective Deputy Director and/or Director for review and approval, in advance of routing’ to the Finance Department for further processing. These policies are being enforced.”

**Follow-up # 3:** The NOAB enforced the stated corrective action. The revised credit card policy required cardholders to submit support for each transaction to the designated authority for approval<sup>8</sup>. All expenses tested were properly approved by the designated approval authority in accordance with the revised policies.

**Finding # 4:**

**Condition:** “Itemized<sup>9</sup> and properly documented meal receipts were neither obtained nor submitted.”

**Recommendation:** “NOAB policy should be updated to require that itemized receipts be requested for all meal purchases made on NOAB credit cards. Use of public funds for meal expenses should be limited to occasions where the expense was reasonable in accomplishing the specific business purpose. Itemized receipts for meals provide support for the number of people in attendance and provide support that public funds were not used for the purchase of prohibited items.”

**NOAB Response:** “Agree. See above responses to Finding/Recommendation #1 & #2. By June 30, 2012, we will review the new policies issued in January 2011 and recommend changes as may be needed for itemization of meal transactions.”

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<sup>7</sup> The Director and all Deputy Directors were allowed to sign their own Credit Card Reconciliation Reports. The former Chairman did not submit a report for his credit card transactions.

<sup>8</sup>NOAB employees using the NOAB Staff credit card were required to submit their support for each transaction to their Deputy Director for approval and Deputy Directors submitted their support to the Director for approval. The Director was required to submit his support for each transaction to the Board for approval.

<sup>9</sup> The Louisiana Legislative Auditor’s “Checklist of Best Practices in Government” stated that cardholders turn in “itemized/detailed receipts and other appropriate documentation for all credit card charges appearing on the monthly statement.” <http://www.la.state.la.us/userfiles/file/bpchecklistapr11.doc>

**Follow-up # 4:** The NOAB enforced its revised policy concerning meal expenses. The revised NOAB credit card policy disallowed meal purchases on NOAB credit cards by NOAB staff<sup>10</sup>. The Director and Board members were required to submit itemized receipts for all meal transactions on NOAB credit cards. Itemized receipts were submitted for all meals tested.

**Finding # 5:**

**Condition:** “The auditors noted thirty-seven transactions by the former Director and the former Chairman that were deemed fully or partly personal<sup>11</sup> by the NOAB.”

**Recommendation:** “The NOAB should enforce the disallowance of personal charges on NOAB credit cards. All personal purchases on NOAB credit cards should be immediately paid to the NOAB in full.”

**NOAB Response:** “Agree. The Board and the Executive Director adopted new credit card policies in January 2011. Under the new policies, the user of a credit card shall ‘[n]ot incur any charges for personal use.’ These policies are being enforced. By June 30, 2012, we will review the new policies issued in January 2011 and recommend changes as may be needed to require prompt and full repayment of any expenditures that are deemed personal in nature.”

**Follow-up # 5:** The NOAB appeared to enforce the disallowance of personal charges<sup>12</sup> on NOAB credit cards.

**Finding # 6:**

**Condition:** “The former Chairman did not reimburse the NOAB for certain personal expenses on NOAB credit cards.”

**Recommendation:** “Personal expenses should not be charged on NOAB credit cards. Any outstanding requests for reimbursement for personal expenses should be paid in full to the NOAB immediately by the cardholder. Any outstanding amounts not reimbursed or only partially reimbursed should include support documenting why the full amount was not reimbursed by the cardholder. This supporting documentation should also include a signed approval by the Deputy Director of Finance & Administration or other designated official. Habitual abusers should be denied use of a credit card.”

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<sup>10</sup> The revised NOAB Staff “Credit Card Use Policy” limited NOAB Staff purchases to “travel expenses in accordance with the Travel Policy (e.g., to purchase transportation, lodging, conference registration) and Business as defined in the Business Expense Policy”. NOAB Staff were not permitted to use credit cards for meals, and any amount exceeding per diem would not be reimbursed.

<sup>11</sup> NOAB credit card policy required that cardholders not incur any charges for personal use.

<sup>12</sup> In all cases where a charge was later deemed personal, the NOAB was reimbursed for the full amount (Follow-up # 6) by the cardholder before the corresponding credit card statement was paid (Follow-up # 7).

**NOAB Response:** “Agree. The Board and the Executive Director adopted new credit card policies in January 2011. Under the new policies, the user of a credit card shall ‘[n]ot incur any charges for personal use.’ These policies are being enforced. By June 30, 2012, we will review the new policies issued in January 2011 and recommend changes as may be needed to require prompt and full repayment of any expenditures that are deemed personal in nature. The Board will request remittance by the former Chairman of the outstanding amount not reimbursed (\$554.00) to the Board as noted in Finding #6.”

**Follow-up # 6:** The NOAB requested and received reimbursement from the former Chairman for \$554.00 on February 24, 2012. During the period tested, the NOAB was reimbursed for the full amount by the cardholder in all cases where a charge was later deemed personal.

**Finding # 7:**

**Condition:** “The NOAB was not reimbursed in a timely manner for personal expenses made on NOAB credit cards.”<sup>13</sup>

**Recommendation:** “Personal expenses should not be made on NOAB credit cards. All purchases that are deemed personal should be reimbursed to NOAB immediately with a check<sup>14</sup> for the full amount. NOAB should clearly state this in an updated written credit card policy. Habitual abusers should be denied use of NOAB credit cards.”

**NOAB Response:** “Agree. The Board and the Executive Director adopted new credit card policies in January 2011. Under the new policies, the user of a credit card shall ‘[n]ot incur any charges for personal use.’ These policies are being enforced. By June 30, 2012, we will review the new policies issued in January 2011 and recommend changes as may be needed to require prompt and full repayment of any expenditures that are deemed personal in nature.”

**Follow-up # 7:** The NOAB enforced the disallowance of personal charges on NOAB credit cards and all charges later deemed personal by the NOAB were reimbursed in full by the cardholder before the corresponding statement was paid by NOAB. The auditors did not note any abuse of NOAB credit cards during the period tested.

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<sup>13</sup> The Louisiana Attorney General opined that in any incident where a personal charge is made on a public credit card, the cardholder must remit payment to the public entity “as soon as possible after the charges are made and prior to receipt of the bill for payment by the public entity.” (*La. Attorney General Opinion No. 92-597*)

<sup>14</sup> Employees and the Former Chairman with a credit card did not reimburse NOAB by check for personal charges on NOAB credit cards. Six of the former Chairman’s personal expenses totaling \$1,702 were not reimbursed to the NOAB by check. The reimbursements due to the NOAB were unpaid until they were eventually deducted from amounts later due to the former Chairman from the NOAB.

**Finding # 8:**

**Condition:** “NOAB employees and the former Chairman did not purchase airline tickets at the lowest possible rate.”<sup>15</sup>

**Recommendation:** “The NOAB should enforce its policy requiring cardholders to purchase tickets at the lowest possible rate. Comparison searches on discount websites should be included with the final invoice as support that tickets were purchased at the most cost-effective price.”

**NOAB Response:** “Agree, to the extent that it cannot be determined if the airfare was purchased at lowest possible rate. The Board and the Executive Director adopted new credit card policies in January 2011. Under the new travel policies, it provides that, the traveler shall use ‘reasonable effort to purchase the lowest airfare available.’ The policies also provide that any upgrade from “coach, economy or business class flights” is solely at the cost of the traveler. These policies are being enforced.”

**Follow-up # 8:** The NOAB enforced the stated corrective action by requiring cardholders to purchase tickets at the lowest available rate. All airfare purchases tested appeared reasonable.

**Finding # 9:**

**Condition:** “NOAB credit cards were used to purchase tickets to fundraisers and sponsor events of organizations whose business is not directly associated with airport activities. These purchases may have been in violation of the Louisiana Constitution’s prohibition on donating public funds.”<sup>16</sup>

**Recommendation # 9:** “The NOAB should discontinue the practice of making donations and other contributions with NOAB operating funds. Funds should only be used for expenses directly related to airport activities.”

**NOAB Response:** “Agree, to the extent that such transactions violate the Constitution of the State of Louisiana. Since January 2011, there have been no expenditures for participation at community related fundraisers and sponsor events that are not directly associated with airport business. We will review the new Business Expense Policy issued in January 2011 to determine if clarification would be necessary.”

**Follow-up # 9:** The NOAB appeared to enforce its revised policy that limited event attendance to those directly associated with airport business. The auditors did not note any credit card purchases that were in violation of the Louisiana Constitution’s prohibition on donating public funds.

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<sup>15</sup> NOAB travel and business expense policy stated that “airfare is authorized at the lowest possible rate (e.g. economy or coach rate).

<sup>16</sup> The Constitution of the State of Louisiana states that “funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.” (*La. Const. Art. VII, §14*)

**Finding # 10:**

**Condition:** “Alcohol was purchased with public funds in instances that were not permitted by the Louisiana Attorney General’s opinions<sup>17</sup>.”

**Recommendation # 10:** “The NOAB should consider revising its “Business Expense Policy” to prohibit alcohol purchases except when in compliance with the Louisiana Attorney General’s opinions. Any alcohol purchases on NOAB credit cards that are not in compliance with the Louisiana Attorney General’s opinions should be considered personal and should be reimbursed to the NOAB immediately by the cardholder.”

**NOAB Response:** “Agree. By June 30, 2012, we will review the new Business Expense Policy and Travel and Business Expenses Policy each issued in January 2011 and recommend changes as may be needed to comply with State law and Attorney General opinions.”

**Follow-up # 10:** The NOAB enforced the stated corrective action. The revised credit card policy for the Director of Aviation and Board Members prohibited alcohol purchases with NOAB credit cards, except when in accordance with the Louisiana Attorney General’s opinion on such purchases. The NOAB Staff credit card policy did not include alcohol as a permitted expense in any instances. Further, the auditors did not note any alcohol purchases on NOAB credit cards during the period tested.

**Finding # 11:**

**Condition:** “Although the NOAB had an onsite fueling and maintenance facility, there was no written policy<sup>18</sup> requiring employees with take-home vehicles to fill their cars at this facility.

During testing of credit card transactions, the auditors noted...gas purchases at locations in the Greater New Orleans area by employees assigned take-home vehicles...Because the cars were not refueled at the airport’s onsite fuel facility, the auditors could not determine if the cars being fueled were airport vehicles or personal cars.”

**Recommendation # 11:** “The NOAB should consider updating its take-home vehicle policy and require that airport-owned vehicles be fueled at the onsite fueling facility when in the Greater New Orleans area.

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<sup>17</sup> The Louisiana Attorney General has stated that “public funds are not used for the purchase of alcohol” (*La. Attorney General Opinion No. 99-358*) with the exception of “business lunches or dinners where there is a duty or obligation which serves an undisputed public purpose and public benefit, clients or customers from the private sector are the primary attendees, and where the expenditure is not disproportionate to the value of the public funds expended.” (*La. Attorney General Opinion No. 02-125*)

<sup>18</sup> During the period tested, the NOAB had adopted City of New Orleans Policy Memorandum No. 5 “Vehicle and Equipment Policy” revised as of August 1, 2010. The policy stated that “all City employee/operator vehicles and equipment will use the City fuel facilities...for all normal operational fuel services, unless otherwise authorized by the Fuel Services Administrator.”

**NOAB Response:** “Agree. There are only two (2) staff members with take-home vehicles. Neither of these staff members have credit cards. In an abundance of caution, we will review the new credit card policies of January 2011 and recommend changes to clarify that fueling of take home vehicles must be performed at the Airport’s fueling facility when in the New Orleans area.”

**Follow-up # 11:** The NOAB enforced the stated corrective action. The revised Director and Board Member credit card policy restricted fueling of NOAB vehicles using NOAB credit cards to only when the cardholder was in travel status. NOAB Staff using NOAB vehicles<sup>19</sup> were only permitted to use credit cards to fuel the vehicles when in travel status, and reasonable effort was to be made to fully fuel the vehicle at the airport before departing. The NOAB appeared to enforce the revised policies during the period tested.

**Finding # 12:**

**Condition:** “The auditors noted a...transaction for a \$1,000 cash advance...on the former Chairman’s NOAB credit card.”<sup>20</sup>

**Recommendation # 12:** “The NOAB should consider including in its credit card policy that cash advances are not permitted.”

**NOAB Response:** “Agree, to the extent that such advance is not required for a legitimate business purpose. By June 30, 2012, we will review the new policies issued in January 2011 and recommend changes as may be needed concerning cash advances on credit cards.”

**Follow-up # 12:** The NOAB enforced the stated corrective action. The NOAB revised its credit card policy for the Director and Board to prohibit cash advances. No cash advances were noted on NOAB credit cards during the period tested.

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<sup>19</sup> Only one employee had an NOAB take-home vehicle during the period tested. No fuel purchases were made by this employee on NOAB credit cards during the period tested.

<sup>20</sup> The sample “Credit Card Policy” from the Louisiana Legislative Auditor’s website stated that credit cards “not allow cash advances to be made. This information can be located at: <http://www.la.state.la.us/localgovernment/bestpractices/>