



A Tradition of Stewardship  
A Commitment to Service

## Attachment B

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Auditor-Controller

# COUNTY-WIDE AUDIT OF EMPLOYEE REIMBURSEMENTS FOR THE NINE MONTHS ENDED OF SEPTEMBER 30, 2016

Napa County Board of Supervisors  
Minh Tran, County Executive Officer  
Karen Dotson, Internal Audits Manager

## Scope and Objective

Our engagement was conducted in conformance with *the International Standards for the Professional Practice of Internal Auditing*. We performed a County-wide audit on Employee Reimbursements to evaluate the effectiveness of internal controls of the reimbursement process for the period of January 1, 2016 to September 30, 2016. Our testing was focused on travel and meal related expenses input by County departments. The audit work papers and discovery materials will be made available upon request. The objective of our engagement was to:

- Determine internal controls over employee reimbursements are adequate to effectively safeguard County's resources; and
- Determine that employee reimbursements are in accordance with the County's Purchasing Policy, Travel Policy, the Accounts Payable Procedures, and other related County policies and procedures.

## Background/Authority

On June 30, 1964, the Napa County Board of Supervisors authorized the Auditor-Controller to establish procedures to conform State Controller's Uniform Accounting Manual. Hence, the Auditor-Controller's Office has developed Accounts Payable Procedures [issued July 1, 2011], Accounts Payable Resource Guide [issued August 20, 2018], Travel and Expense Guidelines [issued April 13, 2018] and an Internal Control Policy [adopted by the Board of Supervisors on October 18, 2016].

In addition to the procedures, the Auditor-Controller's Office conducts training sessions and monthly financial user meetings that encompass a wide range of topics from system changes to training on protocol and procedures applicable to financial transactions.

Utilizing a report generated from the County's financial system, the County issued 3,064 vouchers with 3,469 line items for employee reimbursements totaling \$701,065.06 during the nine months ended September 2016. The reimbursements were related to training and travel, business related purchases, or to replenish petty cash.

## **Procedures**

In achieving the engagement objectives, the following procedures were performed, including but not limited to:

1. **Travel Reimbursements** – We reviewed travel and mileage accounts to determine if a department entered the transaction directly into the financial system without going through the proper reimbursement process.
2. **Authorized Business Purpose and Accurate Account Coding** – We examined a sample of transactions to verify if the transactions were supported by documentation, posted to the correct account and approved by an authorized employee.
3. **Non-travel Employee Reimbursements** – We reviewed a list of non-travel employee reimbursements to determine if the transactions was subject to the Purchasing Policy.
4. **Petty Cash Reimbursements** – We reviewed petty cash reimbursements to determine if petty cash was used for travel related expenditures, which is not allowed per policy.

## **Summary of Results and Recommendations**

### **1. Travel Reimbursements**

**Result:** Departments generally complied with the travel policies and procedures. During the time of the audit, the reimbursement process was relatively manual with no automation in the financial system. Therefore, policy required departments to submit employee reimbursement claims to the Auditor-Controller's Office for processing to ensure compliance of the County's policies and IRS regulations. The audit resulted in finding 786 vouchers out of 3,064, (25.5% of vouchers entered totaling \$137,271 or 19.6% of claims paid), were processed by the departments directly without Auditor-Controller review. All reimbursements were for appropriate business uses. However, this could put the County at risk for paying without proper documentation or providing a benefit to the employee without proper taxes being withheld.

**Recommendation:** With assistance from the Information Technology Services, the Auditor-Controller implemented the Travel and Expense module in the County's financial system. This requires employees to input their own travel and expense reimbursement requests. Electronic workflow and imaging of documentation are contained within the automated transaction, with the final approval by the Auditor-Controller's Office. The Auditor-Controller's Office provided training to all departments and created a training manual/user reference guide, posted on the internal website. Having a system with workflow and policies embedded in the automated process should alleviate future concerns in this area.

## 2. Authorized Business Purpose and Accurate Account Coding

**Result:** To ensure departments are in compliance with the budgets approved by the Board of Supervisors and the County's Comprehensive Annual Financial Report reflects the financial position and transactions of the County accurately, departments must utilize accounts that reflect the nature of the expenditure. Of the 786 vouchers entered by the Departments, we sampled 102 employee reimbursements. All reimbursements were for valid business purposes. 5 of the 102 transactions (0.5%, \$535) were recorded to accounts that did not correspond to the expense reflected on the invoice.

**Recommendation:** Departments should be commended for adhering to the County's policy and having less than 1% error rate in account coding errors. The Auditor-Controller maintains a listing of every account, along with definitions and, in some cases, examples. This listing is updated as changes are made and is accessible on the County's internal website. In addition, all claims are to be reviewed and approved by a supervisor, which includes verifying all the information on the claim form and that the correct account is being used.

## 2. Non-Travel Reimbursements

**Result:** We reviewed 24 transactions over \$1,000 (high-risk dollar threshold) paid to employees. All transactions were for County business purposes and approved by an authorized employee. However, 5 of the transactions, for a total of \$8,670 were to a court employee were for transcript services that were not under contract in accordance with the Napa County Purchasing Policy.

**Recommendation:** We recommend that departments review the Napa County Purchasing Policy annually and monitor reimbursements to disallow services without a contract.

#### 4. Petty Cash Reimbursements

**Result:** 11 petty cash reimbursements were entered during the testing period with a total of 27 separate line item transactions, totaling \$919. This test resulted in two findings: 6 of the 27 transactions for a total of \$176 (19%) were coded to an incorrect account. Although not in the scope of this audit, upon review, 2 of the 11 reimbursements were payable to employees that were not on file with the Auditor-Controller's Office as authorized custodians. Internal controls required by the County's Internal Control Policy require petty cash reimbursement checks to be made payable only to the authorized and responsible custodian of the funds.

**Recommendation:** Departments should review, at least annually, the petty cash policies and procedures. In addition, departments should continue to utilize the chart of accounts with definitions posted on the internal website to ensure proper accounting for all financial transactions.

Each year, the Auditor-Controller requires a year end close reconciliation of the petty cash account as well as a recertification of the custodian approved by the Department Head. At that time, the policies and procedures should be reviewed and understood. The Auditor-Controller is in the process of finalizing updated petty cash procedures, and has provided training at a monthly financial user meeting. In addition, Auditor-Controller staff are available for departmental trainings upon request.

### Conclusion

The County has policies and procedures in place to comply with Generally Accepted Accounting Principles (GAAP) and the Governmental Accounts Standards Board (GASB) for the recording and tracking of employee reimbursements. The policies enforce the internal controls and safeguarding of assets, and provide departments with clear guidance.

The implementation of the Travel and Expense module in the County's financial system has strengthened the internal controls over employee reimbursements, effectively safeguarding the County's resources and compliance with IRS regulations.

Best practices that should be implemented immediately include the following:

**Review of Policies and Procedures** - Departments should review the policies and procedures provided by the Travel and Expense Policy, the Purchasing Policy and the Petty Cash Policy on an annual basis. In addition, departments should utilize the tools available to ensure proper accounting of financial transactions occur. The Auditor-Controller staff and Purchasing Manager are available for departmental trainings upon request.

**Monitoring** - Departments should ensure that the information recorded in the financial system, through the claim reviewing process is accurate and reflects the true asset description for easy identification. All employee travel and expense reimbursements are required to be paid through the Travel and Expense module in the financial system which has the policy rules embedded within and approval workflow to ensure proper reviews occur. Petty cash should not be used for travel reimbursements.

I want to thank the Internal Audit staff, management and departmental staff for their expertise, cooperation and professionalism in conducting this engagement.

Thank you,

*Tracy A. Schulze*

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