Report to Management

AUDIT OF THE TRAVEL ADVANCE ACCOUNT

April 25, 2011

Texas Water Development Board

Internal Audit

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KEY POINTS OF INTEREST

Overall Conclusion

The Travel Advance Account serves an important purpose by enabling employees to perform their jobs without suffering financial hardship. The process for distributing the funds, ensuring actual travel claims are filed, and monitoring repayment of funds has allowed the $12,500 in the account to be preserved with no losses to the agency.

Opportunities may exist that could reduce the amount of fees paid to maintain the bank accounts as well as provide expanded services to employees who require travel advances. For example, agency credit cards could be provided to employees for up to 100% of expected expenditures without cost to TWDB under a state contract with Citibank. In addition, eligibility for travel advances might be expanded.

The process for reviewing the travel requests, providing original checks, reconciling the actual travel to the travel advance, writing additional checks, receiving repayments from travelers, and entering the final vouchers into the accounting system has been performed in a highly effective and efficient manner by the single employee in the Travel Section with backup by Accounting staff as needed.

The process to reconcile the Travel Advance Account bank statements has been the responsibility of a single employee who has many other highly important and critical functions. This reconciliation with the Quicken books is an important step in maintaining the integrity of the overall process, but is not as critical because of the highly efficient performance in the Travel Section. However, additional efforts to ensure this process is well-documented and performed in the most effective and efficient manner would further ensure the continued integrity of the account.

Recent efforts to revise guidance for TWDB travelers provided more clarity on the rules for travel advances, but additional guidance may still be needed regarding expanded eligibility and final determination of eligibility.

Monthly reimbursements to the Travel Advance Account for travel advances have been occurring regularly during fiscal year (FY) 2011. However, reimbursements for bank charges needs to be accomplished more frequently and listed properly on the reconciliation documentation.

Key Facts and Observations

Travelers and managers are satisfied with the travel advance process. Some would like travel advances to be less restrictive.

Opportunities to pay lower service charges need further examination.

The process for requesting, receiving, and reconciling travel advance vouchers is effective and efficient, but the process for reconciling the bank account could be improved.

Rules for receiving travel advances are followed and enforced, but clarification and policy changes may be needed.

Bank charges and interest need to be listed properly on reconciliations and entered in the accounting system more frequently.

Bank account and outstanding advances need more accurate reconciliation to Quicken documentation.

Timely reimbursement of the travel advance fund has improved.

TABLE OF CONTENTS

A. Management Summary

1. Purpose 1
2. Background 1
3. Scope and Objectives 2
4. Conclusion 2
5. Action Plans 3

B. Detailed Observations, Recommended Action Plans, and Management Responses

1. Travelers and Managers are Satisfied with the Process and Some Would Prefer Advances to be Less Restrictive 4
2. Opportunities to Pay Lower Service Charges Need Further Examination 5
3. Process for Requesting, Receiving, and Reconciling Travel Advance Vouchers is Effective and Efficient, but Process for Reconciling Travel Advance Bank Account Could be Improved 6
4. Rules are Followed and Enforced, but Clarification and Policy Changes May be Needed 6
5. Bank Charges and Interest Need to be Listed Properly on Reconciliation and Entered in the Accounting System More Frequently 8
6. Bank Account and Outstanding Advances Need More Accurate Reconciliation to Quicken Documentation 8
7. Timely Reimbursement of Travel Advance Fund has Improved 9

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A. Management Summary

1. Purpose

The purpose of this report is to present the conclusion, observations, recommended action plans, and management responses from an audit of the Travel Advance Account. This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards.

The standards require the audit to be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for observations and conclusions based on the selected audit objectives. The evidence obtained during the audit provides a reasonable basis for the observations and conclusions based on these objectives.

2. Background

The Travel Advance Account is managed by the Accounting Division in Finance. Duties are separated between the Travel, Financial Reporting, and Revenue, Payroll and Accounts Payable Sections. The Travel Section (consisting of one employee) receives the travel advance requests, reviews them to see if they are reasonable and properly authorized, and writes the checks. The advances are entered into a checkbook system on Quicken along with additional reimbursements and refunds from employees. Four people outside of the Travel Section are authorized to sign the checks.

The Travel Advance Account is reimbursed by travelers who spend less than the amount of the advance and by the Texas Comptroller of Public Accounts (Comptroller) when the official travel claim is processed through the agency accounting system (MIP) and the Uniform Statewide Accounting System (USAS). Funds collected from travelers are submitted to Support Services in Operations and Administration prior to being received in Finance by an employee outside the Travel Section.

The Travel Advance Account is kept at the Bank of America. A Petty Cash Fund is also kept at the Bank of America. Service charges for both accounts are computed monthly and charged against the Travel Advance Account. The amount of the service charges less the interest earned is reimbursed by submitting an expenditure voucher to the Comptroller.

The Financial Reporting Section reconciles the Travel Advance bank account with the check and deposit records that are maintained on Quicken and with USAS. The Petty Cash Fund is not reconciled because the balance has not changed in the last five years.

Twenty-two TWDB staff members were interviewed during the course of the audit. The Chief Financial Officer and Director of Accounting were interviewed along with four other Accounting staff members. In addition six agency employees and four of their managers were interviewed regarding the travel advance process. Three staff members in the Support Services Section of

Operations and Administration (O&A) and three members of the Texas Natural Resources Information System (TNRIS) staff were also consulted.

Documentation from the Quicken system, MIP, and USAS were reviewed along with reconciliations and travel reimbursement claims used as backup for deposit reimbursements from the Comptroller. Personnel at five state agencies were also contacted regarding the travel advance process.

3. Scope and Objectives

The scope of this audit encompassed the examination and evaluation of the adequacy and effectiveness of the internal controls and quality of performance in carrying out assigned responsibilities in relation to the Travel Advance Account. The scope included specific program steps designed to assess:

- Accomplishment of goals and objectives;
- Effectiveness and efficiency of operations;
- Compliance with laws, rules, and regulations;
- Reliability and integrity of data; and
- Safeguarding of assets.

The objectives included procedures designed to determine if:

- Travelers and managers are satisfied with the travel advance process;
- Net cost of bank charges less interest earned is reasonable;
- Process for requesting and receiving a travel advance, reconciling the travel advance to actual travel, and reconciling the bank account is effective and efficient;
- Travelers and managers are following and Finance staff is enforcing TWDB rules for travel advances;
- Bank charges and interest earned are properly accounted for, entered in MIP/USAS, and included in the reconciliations;
- Bank account and outstanding advances are properly reconciled to the $12,500 in the account; and
- Travel Advance Account is accurately and timely reimbursed through processed expenditures for actual travel.

4. Conclusion

The Travel Advance Account serves an important purpose by enabling employees to perform their jobs without suffering financial hardship. The process for distributing the funds, ensuring actual travel claims are filed, and monitoring repayment of funds has allowed the $12,500 in the account to be preserved with no losses to the agency.

Opportunities may exist that could reduce the amount of fees paid to maintain the bank accounts as well as provide expanded services to employees who require travel advances. For example, agency credit cards could be provided to employees for up to 100% of expected expenditures without cost to TWDB under a state contract with Citibank. In addition, eligibility for travel advances might be expanded.

The process for reviewing the travel requests, providing original checks, reconciling the actual travel to the travel advance, writing additional checks, receiving repayments from travelers, and entering the final vouchers into the accounting system has been performed in a highly effective and efficient manner by the single employee in the Travel Section with backup by Accounting staff as needed.

The process to reconcile the Travel Advance Account bank statements has been the responsibility of a single employee who has many other highly important and critical functions. This reconciliation with the Quicken books is an important step in maintaining the integrity of the overall process, but is not as critical because of the highly efficient performance in the Travel Section. However, additional efforts to ensure this process is well-documented and performed in the most effective and efficient manner would further ensure the continuing integrity of the account.

Recent efforts to revise guidance for TWDB travelers provided more clarity on the rules for travel advances, but additional guidance may still be needed regarding expanded eligibility and final determination of eligibility.

Monthly reimbursements to the Travel Advance Account for travel advances have been occurring regularly during fiscal year (FY) 2011. However, reimbursements for bank charges needs to be accomplished more frequently and listed properly on the reconciliation documentation.

5. Action Plans

The following steps are recommended:

- Management in Finance should consider whether access to travel advances should be expanded. The possibility of directly depositing travel advances/and or additional reimbursements should also be investigated.

- Management in Finance should consider exploring the possibility of negotiating lower fees with Bank of America or finding a bank that will charge lower fees. The possibility of using the credit card system offered by Citibank could also be explored.

  Management in Finance should also consider whether the Petty Cash Fund could be closed.

- Finance management should consider working closely with the accountant who reconciles the bank statements to ensure that the procedures for reconciling the bank statements are complete and are as efficient and effective as possible.

- Finance management should clarify who is responsible to make the final determination about eligibility to receive a travel advance. Policy changes should be considered that would enable any employee who sufficiently demonstrates the need for a travel advance to be provided with one.

Finance management should consider whether rules for promptly depositing checks should be adopted and/or consequences of losing a check should be explained in the travel rules.

- Finance management should consider establishing and enforcing a policy for reimbursement of service charges less interest at least annually. Consideration should also be given to reviewing the reconciliation documentation for proper listing of the prior month's service charges and prior months' interest.

- Finance management should consider creating review procedures that would ensure all important steps in the reconciliation have been accomplished.

B. Detailed Observations

1. Travelers and Mangers are Satisfied with the Process and Some Would Prefer Advances to be Less Restrictive

Most of the travelers interviewed were satisfied with the travel advance process and said they would have difficulty performing their jobs if travel advances were not available. One traveler had difficulty getting an exception to the policy and felt it would be impossible to travel twice or more per month without an advance.

Most of the travelers suggested that having travel advance checks directly deposited would greatly increase the effectiveness and efficiency of the process. Most had to go to the bank just before leaving town on their travel. Checks for travelers out of town had to be written sooner and often mailed overnight at an additional expense.

All of the managers indicated that travel advances were absolutely necessary for some staff members to be able to perform their jobs. They all indicated that without the advances some staff members would suffer financial hardship. One manager indicated that the agency should encourage travel advances rather than discourage them.

Recommended Action Plan 1: Management in Finance should consider whether access to travel advances should be expanded. The possibility of directly depositing travel advances/and or additional reimbursements should also be investigated.

Management Response 1: *When the program offering credit cards for travel became available, most agencies reduced, or in some cases eliminated, the travel advance program because of the workload associated with it. While management agrees there is still a need for travel advance, resources do not exist to allow for expansion of the program.*

The Accounting Director and Travel Accountant will determine the feasibility of using on-line banking services to transfer funds from the TWDB travel advance account to the accounts of TWDB travelers.

Responsible party: *Accounting Director.*

Estimated completion date: *June 30, 2011.*

2. Opportunities to Pay Lower Service Charges Need Further Examination

Managers of travel advances at five other agencies were consulted regarding travel advance bank accounts and bank service charges. The Texas Parks and Wildlife Department reported paying lower service charges at Bank of America. The General Land Office reported paying no service charges and getting extra services at Horizon Bank. The Comptroller of Public Account said that TWDB could use any FDIC insured bank for the Travel Advance Account.

Managers of travel advances at the Department of State Health Services and the Texas Commission on Environmental Quality reported they no longer used a bank account for travel advances but used a credit card system. The system was part of the state contract with Citibank and allowed the agency to be responsible for and control the credit card. Both agencies were able to load the credit cards with purchase authority for 100% of the travel and restrict the time period for use of the credit cards. Both reported better cash flow and improved control of travel expenditures.

Over half of the expenditures for bank service charges in the past three and one-half years have been the result of service charges for the Petty Cash Fund that is a separate account from the Travel Advance Account. Finance staff reported that the Petty Cash Fund was originally opened for the use of TNRIS staff. Now TNRIS staff reports that they only need the $100 that they keep on hand and the $900 that has remained constant in the Petty Cash Fund since 2006 is no longer required.

Recommended Action Plan 2: Management in Finance should consider exploring the possibility of negotiating lower fees with Bank of America or finding a bank that will charge lower fees. The possibility of using the credit card system offered by Citibank could also be explored.

Management in Finance should also consider whether the Petty Cash Fund could be closed.

Management Response 2: *The Accounting Director and Accounts Payable Team Lead have begun exploring the possibility of negotiating lower fees or moving TWDB's travel advance account to another bank that may have lower fees or will consider waiving fees. Additionally, the Travel Accountant will schedule a meeting with Citibank to determine the feasibility of using the credit card system referenced above. The decision to adopt the credit card system will be based on objective criteria such as actual cost, as well as time and effort to administer.*

Management will proceed with closing the $900 petty cash account.

Responsible party: *Accounting Director.*

Estimated completion date: *June 30, 2011.*

3. Process for Requesting, Receiving, and Reconciling Travel Advance Vouchers is Effective and Efficient, but Process for Reconciling Travel Advance Bank Account Could be Improved

The process to request a travel advance is effective and efficient. Travelers take only a few additional steps to request a travel advance than they would have to take to request authorization to travel. Travelers report receiving their checks on time and promptly file their travel claims after returning from trips. Procedures for the process are currently accurate and up-to-date.

The efficiency and effectiveness of the process for reconciling the bank account could be improved. Prior to the audit, procedures for the process were inaccurate and had not been updated since October 2005. The person now responsible for this process has worked on improvements as time permitted and new procedures were completed in March 2011. However, these procedures still do not adequately describe the activities that need to be performed.

Using the voucher backup documentation could decrease the amount of time needed to reconcile the travel advances to USAS. This documentation is comprehensive and would be a better control and check on the accuracy of the claims.

Recommended Action Plan 3: Finance management should consider working closely with the accountant who reconciles the bank statements to ensure that the procedures for reconciling the bank statements are complete and are as efficient and effective as possible.

Management Response 3: *Management agrees any efficiency improvements should be explored. A detailed review of the current reconciliation process will be conducted to ensure the most effective information is being use to prepare the reconciliation.*

Responsible party: *Accounting Director.*

Estimated completion date: *June 30, 2011.*

4. Rules are Followed and Enforced, but Clarification and Policy Changes May Be Needed

Generally travelers and managers are following and Finance staff is enforcing TWDB rules for travel advances. The new *TWDB Travel Guide* published in March states:

> "TWDB maintains a Travel Advance Account for employees who demonstrate a need to access such funds and obtain prior written approval from their DEA.
> Possible considerations include:
> 1. classification of A17, B17 or lower;
> 2. inability to qualify for a state travel card;
> 3. travels for more than 5 consecutive days; or
> 4. travels for 10 or more days in a 30-day cycle."

All travelers are submitting proper documentation in the form of properly authorized Travel Authorization forms. All of them are submitting acceptable travel vouchers after the trip and providing repayment of funds as required when the advance exceeds that actual travel amount.

In the past the rules for getting travel advances were very clear regarding the need to travel for more than 5 consecutive days. Now they are clear about getting a travel advance based on traveling over 5 days consecutive days or more than10 days in a 30-day cycle. However, some travelers are getting advances based on "high volume travel" that does not fit into this exact mold.

The travel rules allow a person to receive a travel advance when they are unable to qualify for a state travel card. Although many travelers applied and were denied for the state travel card, employees who personally determined that they would be unable to qualify for the state travel card were also given travel advances.

In the past, the Chief Financial Officer (CFO) has made the final decision about whether a traveler can be granted an exception to the travel rules. Currently it is not clear whether the CFO or the Deputy Executive Administrator (DEA) has the authority to make an exception to the rules for getting a travel advance.

Although only one check has been lost in the last three years, there are no rules for prompt negotiation of checks and managers and staff are not aware of the consequences of losing a check. Often staff receives small checks as the additional reimbursement owed to them after the travel has been completed. TWDB paid a $15.00 charge (that was later refunded) to stop payment on the one lost check for $7.27. The staff person was told they might be required to reimburse TWDB for the charge. Staff and managers need to know the consequences of losing a check so they will be careful to promptly deposit all travel advance checks.

Recommended Action Plan 4: Finance management should clarify who is responsible to make the final determination about eligibility to receive a travel advance. Policy changes should be considered that would enable any employee who sufficiently demonstrates the need for a travel advance to be provided with one.

Finance management should consider whether rules for promptly depositing checks should be adopted and/or consequences of losing a check should be explained in the travel rules.

Management Response 4: *Management agrees the policy should be clarified to ensure the actions currently being taken are documented in the policy. Therefore, staff will revise the Travel Policy to ensure it clearly specifies that the CFO makes the final determinations regarding eligibility to receive travel advances and approval of exceptions.*

Lastly, staff will revise the Travel Policy to include the process for addressing lost checks.

Responsible party: *Accounting Director.*

Estimated completion date: *June 30, 2011.*

5. Bank Charges and Interest Need to be Listed Properly on Reconciliation and Entered in the Accounting System more Frequently

The reconciliation documentation lists prior months' service charges and prior months' interest that has not been reimbursed. Since March 2008, bank charges less interest earned have been considered in the reconciliation each month but reimbursement was not requested for these charges until December 2010. Thus the service charges (less interest) had not been reimbursed for over two and one-half years. No service charges have been reimbursed for FY 2011.

After the reimbursement was deposited into the bank account, the prior months' services charges on the reconciliation documentation was updated for the amount of the reimbursement but the prior months' interest was not adjusted. To properly list these amounts on the reconciliation documentation, separate calculations for the services charges and the interest should have been made. Since this was not done, although the net of the amounts is correct, the individual amounts are in error.

Prior to March 2008, reimbursement for bank service charges less interest was requested more frequently and the current reconciliation procedures indicate that reimbursement should be requested quarterly.

Recommended Action Plan 5: Finance management should consider establishing and enforcing a policy for reimbursement of service charges less interest at least annually. Consideration should also be given to reviewing the reconciliation documentation for proper listing of the prior month's service charges and prior months' interest.

Management Response 5: *Service charges net of interest earnings average $225 per year. Management agrees with the recommendation to reimburse the account annually and will ensure doing so at the end of each fiscal year.*

Management will ensure that charges are shown separately from interest earnings on future reconciliations.

Responsible party: *Accounting Director.*

Estimated completion date: *April 30, 2011.*

6. Bank Account and Outstanding Advances Need More Accurate Reconciliation to Quicken Documentation

Despite some errors in the reconciliation process over the past three and one-half fiscal years, the $12,500 that makes up the Travel Advance Account could always be accounted for by adding the funds in the bank account to the amounts outstanding to be reimbursed for bank charges and the amounts to be reimbursed from unfiled travel claims.

Since travel advances are entered into the Quicken software and a *Reconciliation Summary* is run in Quicken as part of the monthly reconciliation process, verifying that the reconciliation documentation produced by the reconciler matches the *Reconciliation Summary* is a vital step in the process. In FY 2010, there were two occasions they did not match, and during the first six months of FY 2011, there were three occasions they did not match.

Failing to ensure that this part of the reconciliation is balanced could jeopardize the effectiveness of the entire process and could fail to reveal an important error that would need correcting.

Recommended Action Plan 6: Finance management should consider creating review procedures that would ensure all important steps in the reconciliation have been accomplished.

Management Response 6: *Management agrees that some of the amounts reflected in the reconciliation did not match the Quicken summary. The amounts were self-correcting over time and are no longer an issue. Discussions with staff have occurred to ensure the correct amounts are used in the future. Additionally, the procedures will be revised to ensure there is a common understanding among the staff responsible for reconciliations and reviews. All reconciliations with discrepancies will be revised.*

Responsible party: *Accounting Director.*

Estimated completion date: *April 30, 2011.*

7. Timely Reimbursement of Travel Advance Fund has Improved

Procedures regarding the reimbursement of the Travel Advance Account state that the bank account should be replenished monthly. In the past, this task was not being completed consistently. However, the account has been replenished monthly for the first seven months of FY 2011.

All of the reimbursements were for the correct amounts that had been properly reconciled from the travel advances to the actual travel. In addition, the bank account has never diminished to the point that travel advances could not be made timely.

Recommended Action Plan 7: None required.

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