



Office of the City Auditor
FY2020 Expenditure Review
Report Period: July 2019 - June 2020

May 18, 2021

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Purpose/Scope/Objectives/Methodology

Purpose:

- Determine whether:
 - Patterns or anomalies exist in the City's financial accounting system (AFMS) for expenditures that require further analysis;
 - Oversight and monitoring processes were in place.

Scope: FY2020 July 2019 – June 2020

- Expenditures reviewed included amounts paid via PRM, PRC, GAX, GAXEDI, and GAXBOFA city AFMS document processes;
- Personnel costs were excluded from the review;
- The work performed was a review and less in scope than an audit.

Objectives:

- Identify potential risks such as large payments and high payment frequencies to vendors, manual disbursements, broadly defined account categories;
- Determine whether expense items were properly classified, supported, and posted to correct AFMS codes;
- Determine whether duplications of data existed, such as multiple vendor codes and vendor names and if a monitoring system was in place to identify duplicate payments.

Methodology:

- Expenditure reports were downloaded, sorted, summarized and selected transactions compared for City Departments and vendors.

Internal Controls

The City has effective internal controls in place over expenditures to reduce and mitigate the risk of fraud

- ***To safeguard against duplicate and excessive payments***

- ❖ AFMS only allows for vendor invoice number to be paid once.
- ❖ Purchasing is working on Spend Plan software to identify potential duplicate and/or split payments and unreasonable spending practices.
- ❖ Finance reviews vendor accounts for duplications and inactivates accounts no longer needed.
- ❖ Contract amounts are recorded in AFMS to limit payments to authorized amounts – we did note that copies of fully executed contract documents were not always included as attachments in AFMS.

- ***To guard against fictitious payments***

- ❖ Vendor accounts without activity are inactivated after two years.
- ❖ Finance reviews and eliminates multiple vendor accounts in AFMS.
- ❖ Vendor accounts are reviewed annually to confirm up-to-date vendor information as part of the Form 1099 process.

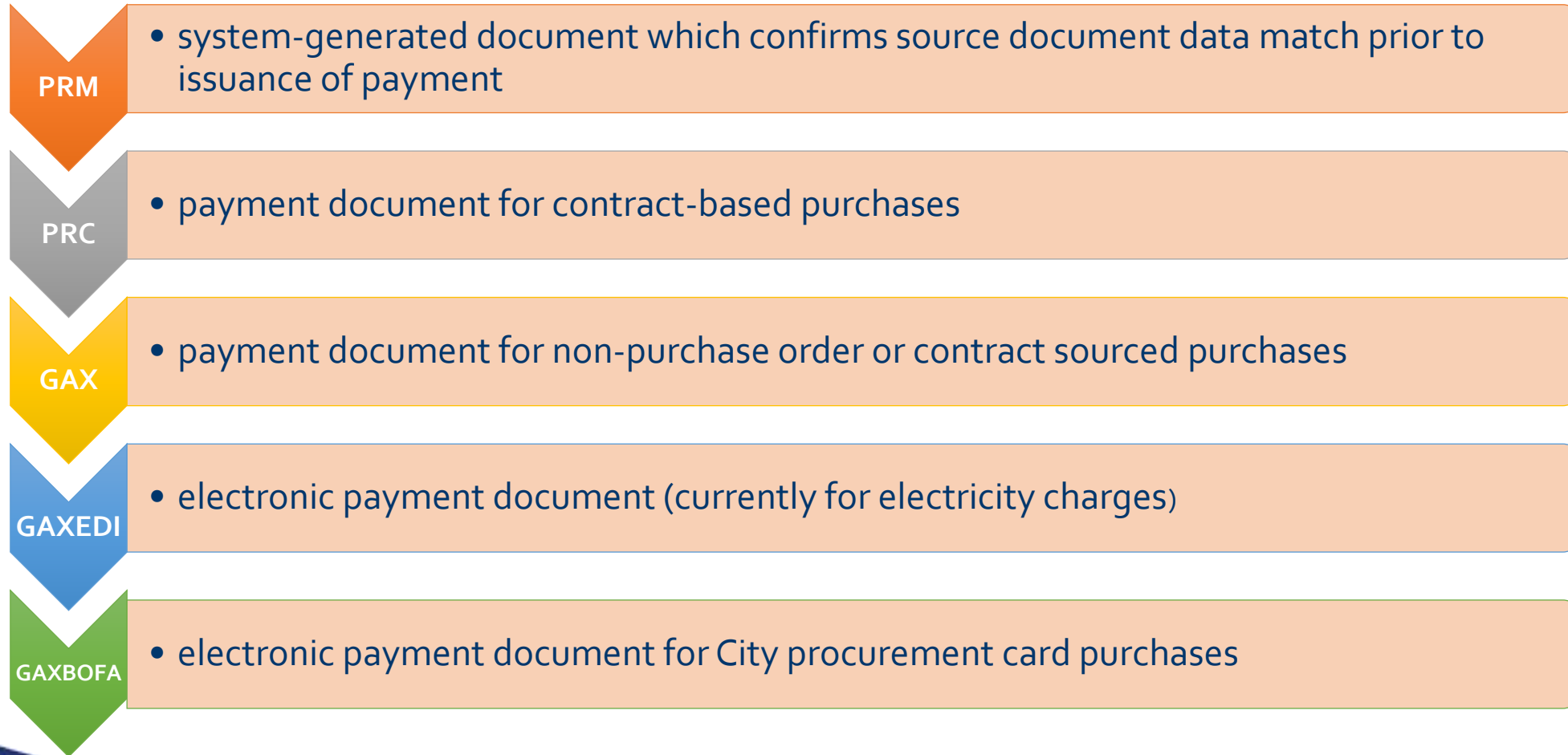
Internal Controls (cont.)

Controls over the expenditures function

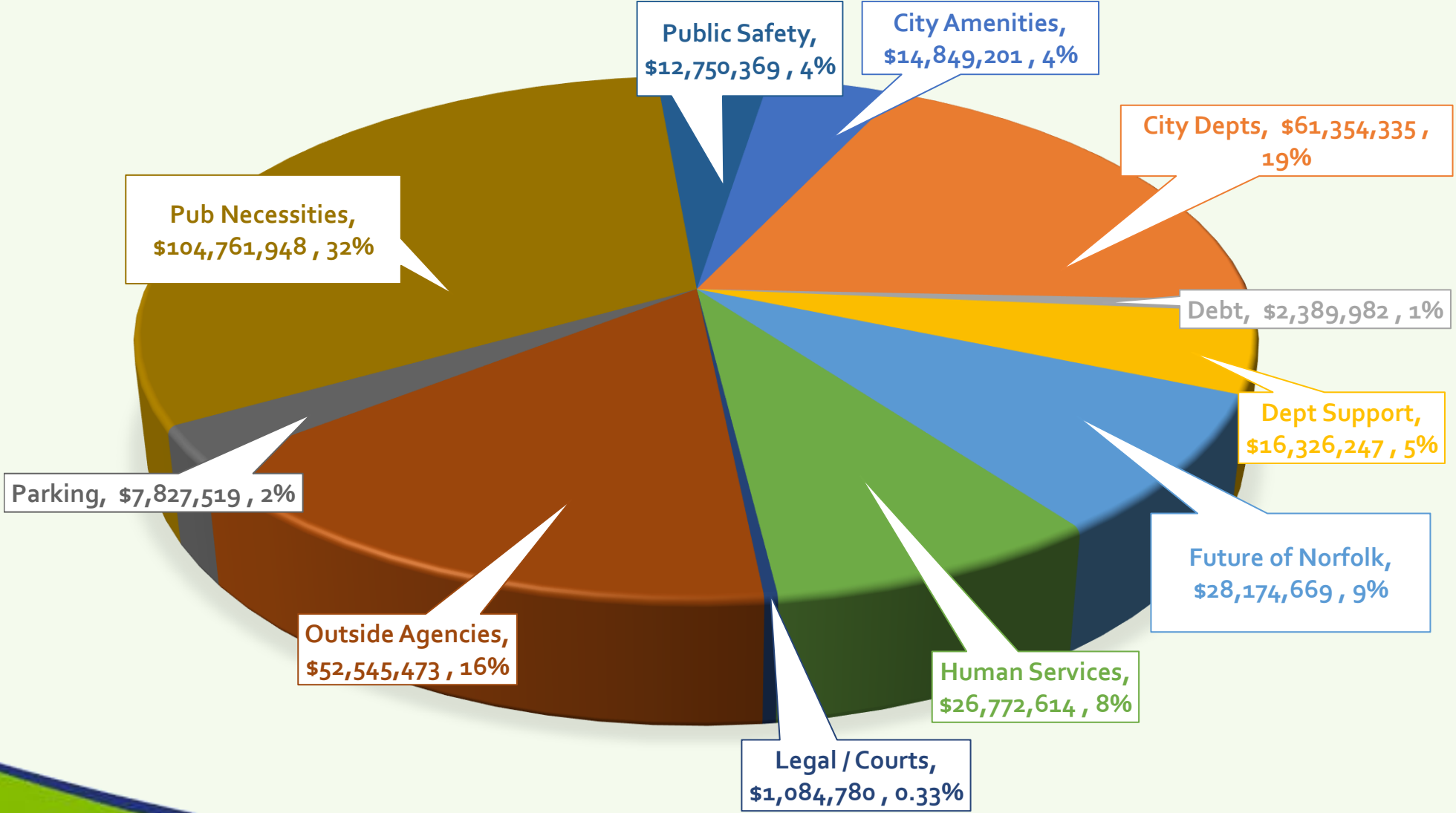
- ***To prevent fictitious vendors from being added to the system-Separation of functions***
 - ❖ Only the Accounts Payable section of the Finance Dept, using two-level approval and working with Purchasing, can create vendor accounts - Persons setting up vendors are not authorized to make payments.
- ***To ensure one employee cannot post and approve purchases and payments-Separation of functions***
 - ❖ Departments process their own purchases up to certain limits and make the payments. For both purchases and payments, one person enters a transaction, another approves.
- ***External auditors review the City's internal controls annually***

Expenditures Posting Types

For the review, the following types of expenditure document codes were examined:



FY2020 Expenditures *(Total of \$338M does not include personnel costs of approx. \$57M)*



All-Purpose Appropriations (Object code#5501)

- The purpose of this account is for expenditures that cannot be specifically classified, or a previous transaction history exists for its use
- Excessive use of Object code #5501, which does not appear to comply with the purpose of the account, *included payments for-*
 - ❖ Departmental Support
 - ❖ Capital Projects
 - ❖ Outside Agencies, and
 - ❖ Other costs such as:
 - *promotional costs
 - *copier
 - *sponsorships
 - *nuisance abatement
 - *dog and cat sterilization surgeries
 - *library programs

All-Purpose Appropriations (Object code#5501)

Department	Total Dollars	% of Total \$	Transaction Count	% Count
Outside Agencies	\$ 49,909,704	85.8%	186	14.8%
Public Health	2,943,105	5.1%	8	0.6%
Storm Water Management	2,730,080	4.7%	50	4.0%
Parking Facilities Fund	696,361	1.2%	24	1.9%
Public Amenities	345,670	0.6%	5	0.4%
Departmental Support	342,620	0.6%	28	2.2%
Other	266,413	0.5%	169	13.4%
Debt Service	258,012	0.4%	11	0.9%
Libraries	249,447	0.4%	205	16.3%
Neighborhood Preservation	171,543	0.3%	28	2.2%
Neighborhood Development	147,200	0.3%	541	43.0%
Cultural Facilities Arts Entertainment	105,000	0.2%	3	0.2%
Total	\$ 58,165,155	100%	1,258	100%

All-Purpose Appropriations (Object code#5501)

Example Expenditures	Department	Purpose	Amount
Departmental Support	Public Health	Annual funding	\$ 2,942,825
Capital Projects	Storm Water	Capital projects	2,730,080
	Parking	Capital projects	568,376
Outside Agencies	Public Amenities	NRHA - Tourism Dev Program	345,670
	Departmental Support	Norfolk EDA - Incentive grants and cigarette tax funding	162,554
Other costs	City Attorney	Copier costs	12,932
	Cultural Facilities	Marketing support	105,000
	Departmental Support	Various sponsorships	115,504
	Departmental Support	Copier costs	64,562
	Neighborhood Development	Nuisance abatement	122,247
	Neighborhood Preservation	Dog and cat sterilizations	154,609
	Libraries	Computer upgrades and filter subscription	183,791
	Libraries	Summer Reading Program	13,944

Recommendations

All-Purpose Appropriations

- Usage of the All-Purpose Appropriations #5501 account should be reviewed and strictly limited.
 - ❖ *Departments have become accustomed to using this non-descriptive account.*
- More specific classification of expenditures will provide more accountability and transparency of City funds.

Outdated Budget Code Book



Budgetary Code Book describes Object Codes for expenditures classification



Most recently updated July 2000



Over time there have been operational changes to the chart of accounts warranting revision to this guide



Usefulness to departments is limited due to out-of-date status and limited availability.
(Departments may be unaware of the Code Book for classifying and posting expenditures.)

Recommendations

Expenditure classification and recordation

- “Budgetary Code Book” should be updated and distributed to all Departments.
- Specifics and examples defining object code usage should be included.
- Employee training is necessary to ensure consistent account classification for budgetary and financial reporting purposes.
- Finance Department and Budget Office should coordinate efforts when updating the Code Book as it impacts financial operations, reporting, and budgetary control.

Outside Agencies (Dept #18)

Outside Agencies Total Expenditures=\$52.2M

Of the \$52.2M, 91.6% (\$48.0M) was for *All Purpose Appropriations*

Agencies are required to report operational and financial performance to the City for supporting the budget allocation process

The Office of Budget and Strategic Management (Budget Office) is responsible for monitoring outside agencies performance measurements

Effects of COVID-19 on grant funding to Outside Agencies

FY2020, the City reduced payments, compared to budgets, due to a combination of less available City revenue and reduction in actual reimbursement requests by Outside Agencies

Outside Agencies (Dept #18)

Top ten highest funded Outside Agencies (All-Purpose Appropriations Obj code #5501)

Transportation District of Hampton Roads	\$ 20,361,699
Hampton Roads Regional Jail	6,498,940
NRHA	3,342,317 (a)
Norfolk Convention and Visitors Bureau	4,204,930
Chrysler Museum Inc.	2,196,036 (b)
Norfolk Festevents Ltd.	2,105,081 (c)
Downtown Norfolk Council	2,029,684
Economic Development Authority of the City of Norfolk	1,563,030
Norfolk Botanical Garden	1,045,373
Virginia Arts Festival	875,936

(a) Additional funding provided for acquisition and demolition (\$3.5M)

(b) Additional funding provided for building construction (\$850,000)

(c) Includes funding provided for Norfolk Beach Ambassador Program (\$50,000)

Outside Agencies (Dept #18)

Certain agencies received reduced funding due to Coronavirus impact on budget – Comparing budgeted amount to Quarterly budget payments

Selected Outside Agencies	Total FY2020 Budget	Actual FY2020 Total of Quarterly Payments	
Norfolk Convention and Visitors Bureau	\$3,830,304	\$3,073,373	(a)
Chrysler Museum	2,928,047	2,196,036	(b)
Norfolk Festevents	2,250,820	2,055,189	(c)
Norfolk Botanical Garden	1,332,497	1,024,373	
Governor's School for the Arts	50,000	12,500	
Virginia Opera Association	318,255	150,000	
Virginia Symphony Orchestra	305,755	229,316	
(a) Additional amounts totaling \$1.13M were paid for lodging taxes			
(b) Additional \$850,000 paid for building construction			
(c) Additional \$50,000 paid for Norfolk Beach Ambassador Program			

Recommendations

Outside Agencies (Dept #18)

- Budget Office should use the financial and performance reports the outside agencies submit to the City to evaluate and assess the existence and capability of agencies' fundraising and/or revenue-generating activities when proposing budget appropriations to the City Council.
- These amounts can potentially reduce the amount the City provides as subsidy funding.

GAXEDI *electronic payment document (currently for electricity charges)*

FY2020 Electricity charges = \$16.6M, \$12.4M (74.6%) was processed electronically

New, more efficient electronic invoicing and payment process from Dominion Energy for electricity charges

- 360 accounts receiving paper bills have been converted to electronic invoicing
- Late fees reduced from \$21,678 (FY2019) to \$2,121 (FY2020) General Services, Utilities, and Transit

Departments include General Services, Utilities, Transit, Communications, Fire-Rescue, RPOS, and Cemeteries

Additional departments transitioning - Parking and Cultural Facilities

Other utility providers also converting (Virginia Natural Gas is in process)

Recommendations

GAXEDI *(electronic payment document)*

- Finance Department should continue expansion of electronic receipt and payment processes for vendor invoices (GAXEDI)
- Benefits include reduction/elimination of late fees through
 - ❖ Elimination of paper invoicing and need for manual entry
 - ❖ More efficient and timely payment; continue reduction in late fees
 - ❖ Online data availability providing more effective review, monitoring, and control

Temporary Labor Services

1 Four different Object codes were used for payments to Abacus Corporation

2 Account #5307 Other Contractual Services does not describe expenditure purpose for labor costs

3 Account #5121 is to be used exclusively for City temp employee payroll entries
\$76K of payments to outside entity Abacus was incorrectly charged to #5121

Object Code	Description	Total
5304	Temp Services-Admin/Clerical	\$ 1,105,211
5305	Temp Services-Laborer/Industrial	1,650,630
5307	Other Contractual Services	479,059
5121	Temporary/Casual Employment	76,148
	Total	\$ 3,311,048



Recommendations

Temporary Labor Services

- Posting entries to City-employee payroll accounts (#5100's) should be restricted to authorized personnel
- The following codes should be used for Abacus and other vendor labor services:
 - #5304-Temp Services - Admin/Clerical
 - #5305-Temp Services - Laborer/Industrial
- Posting to these codes will clearly identify external temporary employee labor costs for budgetary and expenditure reporting purposes

Manual Disbursements (MD)

- MDs require the intervention of Finance personnel and used only in emergency or other special circumstances such as AFMS technical issues
- For FY2020, the City issued \$4.4M in payments via this method
- The table below is the summary of amounts posted as Manual Disbursements in excess of \$20,000

Reason	# Payments	Total Amount
Technical system issue	11	\$ 991,967
Urgent payment required	3	1,946,020
Manual posting of wire transfer	<u>1</u>	<u>1,427,650</u>
Total	15	\$ 4,365,637

Manual Disbursements (MD)

- **Technical system issues include:**

- ❖ Payment required to be processed in Period 13 but regular processing date was after the cutoff
- ❖ System did not generate checks as scheduled – document exception issue
- ❖ Vendor set up to receive EFT payment but requested cancellation. Vendor would have incurred large charge card fees if paid on SunTrust Virtual card (EFT), so payment issued as MD

- **Urgent payment required**

- ❖ Payment deadline did not permit payment with scheduled check run

- **Manual posting of wire payment**

- ❖ Payment for property purchase was sent via wire payment but the department had processed a PRC initially, so an MD document was created to fully record the transaction in AFMS, but no actual check was issued

Thank you!

