

EXPENDITURE REVIEW

FY2022 – FY2023

REPORT PERIOD: JULY 2021 -JUNE 2023

ISSUE DATE: NOVEMBER 21, 2024

Office of the City Auditor

Tammie Dantzler, CGFM, CIA, CFE, MBA, City Auditor

Shontavious Lovett, CPP, MSA, Assistant City Auditor II

INTRO

Purpose

- Conducted a thorough city-wide expenditure review
- Identify any patterns or anomalies within the City's financial accounting system (AFMS) regarding expenditures, warranting further analysis.
- Evaluate the effectiveness of oversight and monitoring procedures that were implemented.

Scope: FY2022 and FY2023

July 2021 –June 2023

- Expenditures processed through PRM, PRC, GAX, GAXEDI, and GAXBOFA in the city's AFMS.
- Personnel costs were excluded from the review;
- The worked performed constituted a narrower scope compared to an audit.

Objectives

- Identify potential risks, such as significant payments, frequent payments to vendors, manual disbursements, and broadly categorized accounts.
- Assess the accuracy of expense item classification, ensuring proper support and correct posting to AFMS codes.
- Investigate the presence of data duplications, such as multiple vendor codes and names, and evaluate the effectiveness of the monitoring system in detecting 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 prevent fictitious vendors from being added to the system-Segregation of duties

- 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-Segregation of Duties

- 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

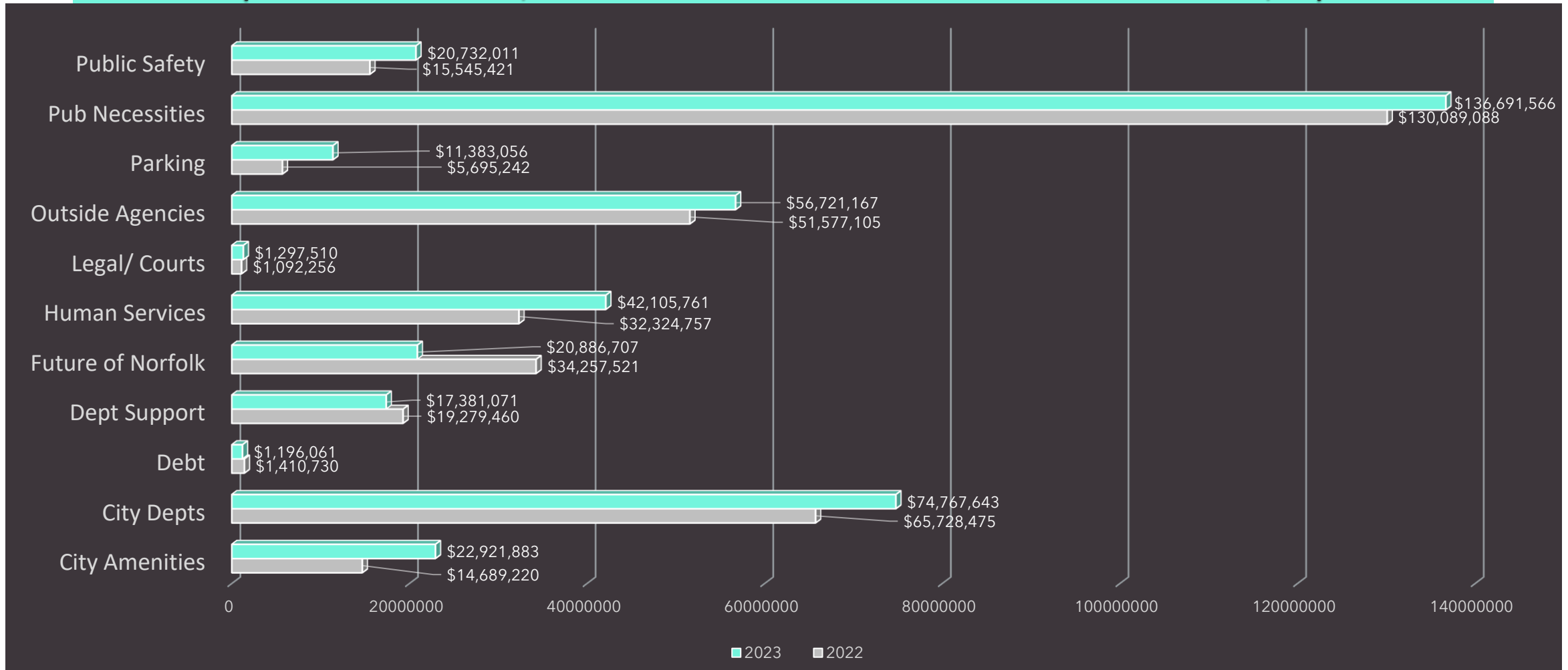
EXPENDITURES POSTING TYPES

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

PRM	<ul style="list-style-type: none">• System-generated document which confirms source document data match prior to issuance of payment
PRC	<ul style="list-style-type: none">• Payment document for contract-based purchases
GAX	<ul style="list-style-type: none">• Payment document for non-purchase order or contract sourced purchases
GAXEDI	<ul style="list-style-type: none">• Electronic payment document (for electricity, natural gas and water and sewage charges, refuse and garbage disposal, and other contractual services)
GAXBOFA	<ul style="list-style-type: none">• Electronic payment document for City procurement card purchases

FY2022 AND FY2023 EXPENDITURES

(FY2022 TOTAL OF \$382M DOES NOT INCLUDE PERSONNEL COSTS OF \$58)
(FY2023 TOTAL OF \$399M DOES NOT INCLUDE PERSONNEL COSTS OF \$71)



- City Amenities (Library, Cemeteries, Cultural Facilities Arts Entertainment, Recreation Parks and Open Spaces, Zoological Park, National Maritime Center, Neighborhood and Leisure Services)
- Future of Norfolk (City Council, Development, Housing and Community Development, Office of Resilience, Planning and Community Development, St. Paul's Transformation)
- Public Necessities (Public Works, Storm Water Management, Transit, Waste Management, Wastewater, Water)

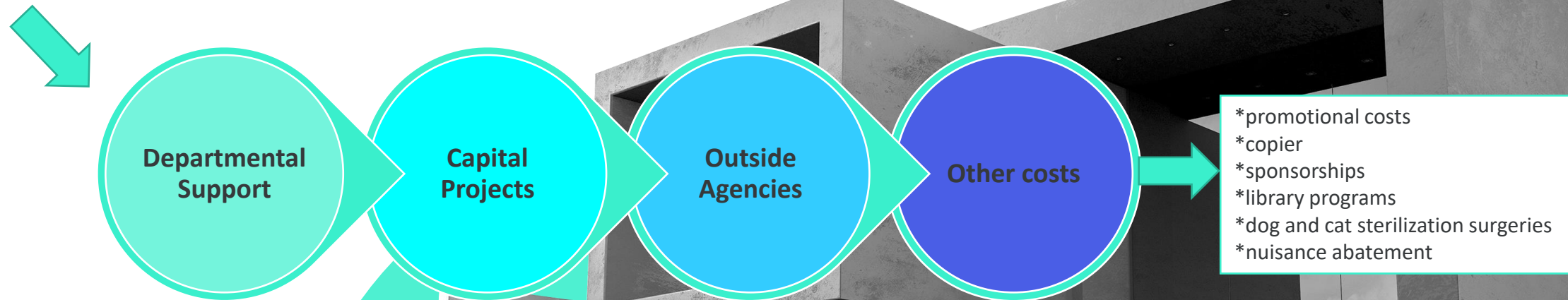
ALL-PURPOSE APPROPRIATIONS

(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:

We noted this on our previous two reviews; however, this practice has continued.



ALL-PURPOSE APPROPRIATIONS

(OBJECT CODE #5501)

	FY2023	FY2022	FY2021
Public Health	2,491,494	2,683,572	2,942,825
Departmental Support	2,442,613	330,629	124,650
Public Works	684,802		
Public Amenities	298,360	252,203	119,956
Neighborhood Development	288,372	223,663	294,511
Storm Water Management	191,510	265,278	983,964
Others	179,031	167,854	182,593
Neighborhood Preservation	155,064	185,698	124,099
Libraries	53,508	52,001	18,097
Development	20,568		
General Services	-	197,403	330,460
Parking Facilities Fund	-	184,992	299,557
Cultural Facilities Arts Entertainment	<u>-</u>	<u>50,000</u>	<u>-</u>
Total	\$6,805,321	\$4,593,293	\$5,420,712

ALL-PURPOSE APPROPRIATIONS

(OBJECT CODE #5501)

Example Expenditures		FY2023	FY2022
Department	Purpose	Amount	Amount
Public Health	Annual funding	2,491,494	2,683,572
Departmental Support	Food, Parking Passes, Shirts, Tent for Corporate 5k, EDA cigarette grants	2,442,613	330,629
Public Works	Construction In Progress (CIP)	684,802	
Public Amenities	NRHA – Tourism Dev Program	298,360	252,203
Neighborhood Development	Nuisance abatement, amazon, canva, cakes by Jen, t-shirts, DJ, VA Pilot, Food, Snacks, tables, car wash, coffee, water	288,372	223,663
Storm Water	Capital projects	191,510	265,278
Neighborhood Preservation	Dog and cat sterilizations, emergency surgeries,	155,064	185,698
Recreation Parks and Open Space	Lunch, snacks, equipment, supplies, giveaways, boat slip, Disposal services, Verizon wireless, Conferences, end of the year party, iPad, teen party, tree diaper, Disposal services	77,954	33,193
Libraries	Camera, coffee, creamer, cups, water, lunch, hotspot devices, cooler rental, computer, books	53,508	52,001

ALL-PURPOSE APPROPRIATIONS

Example Expenditures		FY2023	FY2022
Department	Purpose	Amount	Amount
Fire-Rescue	Travel, Smoke Alarms, Coffee, Supplies, Food, Honor guard badges and shoes, vehicle rental	26,629	24,604
Development	Environmental - Phase I – Phase III	20,568	
Police	School Supplies, Football foundation, Toy Drive, Handi-Ride, Grant Signs, GO30 SYD	8,941	48,899
Slover Library	Adult scholarship Training, Flowers, Food for staff, supplies, snacks	5,877	1,653
Transit	American Solutions for business	6,308	992
Office of Grants Management	Kensington SmartFit Easy Riser notebook cooling pad	1,300	111
General Services	Insurance Payment, Capital projects		197,403
Parking Facilities	8 Toyota Corollas		184,992
Cultural Facilities Arts Entertainment	MEAC 2022 Marketing Funds		50,000
Planning and Community Development	Wetland Violation Special Rev		5,625
City Manager	Capital projects		5,325

RECOMMENDATIONS

All-Purpose Appropriations: Address the misuse of Object Code #5501 for better expense classification.

Recommendation #1

- Usage of the All-Purpose Appropriations #5501 account should be reviewed and strictly limited.
(Departments have become accustomed to using this non-descriptive account.)

Recommendation #2

- The classification (object code) of expenditures should comply with the city's COA to provide accountability and transparency of City funds.

Note: This highlights a recurring issue with code misuse. Departments have been informed multiple times with limited improvement, indicating a potential need for corrective actions such as additional training or stricter enforcement.

OUTSIDE AGENCIES

(DEPT #18)

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

	FY2023	FY2022
Transportation District of Hampton Roads	\$20,435,705	\$20,162,274
Norfolk Festevents Ltd	8,360,025	2,029,994
Hampton Roads Regional Jail	6,117,457	7,394,250
Norfolk Convention and Visitors Bureau	4,716,777	4,707,729
Chrysler Museum Inc.	3,627,396	2,615,718
Downtown Norfolk Council	2,106,930	2,345,985
NRHA	2,805,978	2,141,198
Virginia Arts Festival	1,111,183	1,801,752
Norfolk Botanical Garden	1,110,053	1,103,379
Economic Development Authority of the City of Norfolk	990,901	1,990,332

OUTSIDE AGENCIES (DEPT #18)

Outside Agencies Total Expenditures=FY23 = \$51.3M/FY22 = \$46.2M

100% (\$51.3M/46.2M) 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

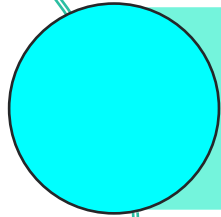
RECOMMENDATIONS

Outside Agencies (Dept 18)

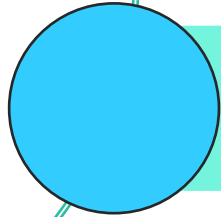
Recommendation #1

- The Budget Office should use the financial (IRS Form 990 and Audited Financial Statements) 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.
- Agency fundraising / revenue-generating activities can potentially reduce the amount the City provides as subsidy funding.

GAXEDI ***ELECTRONIC PAYMENT DOCUMENT***

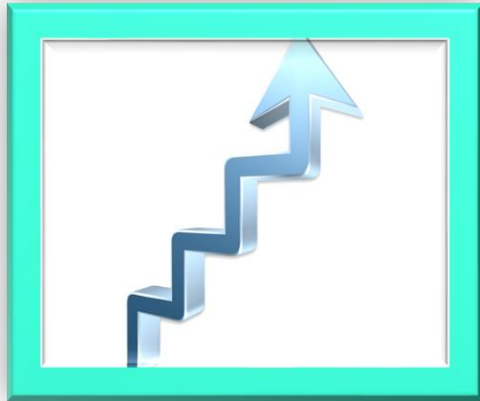


More efficient electronic invoicing and payment process from Dominion Energy, HRSD and Virginia Natural Gas



19 Departments participate: General Services, Utilities, Transportation, Parking, CFAE, Fire-Rescue, Parks & Recreation, Storm Water, Public Works, Waste Management, Cemeteries, Sheriff, Human Services, Police, Zoo, Maritime, Towing & Recovery, Fleet and Communications and Technology

**FY2022 Electricity charges =\$15.8M, \$15.6M (98.4%) was processed electronically
FY2023 Electricity charges =\$18.1M, \$17.8M (98.5%) was processed electronically**



Continued Progress

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

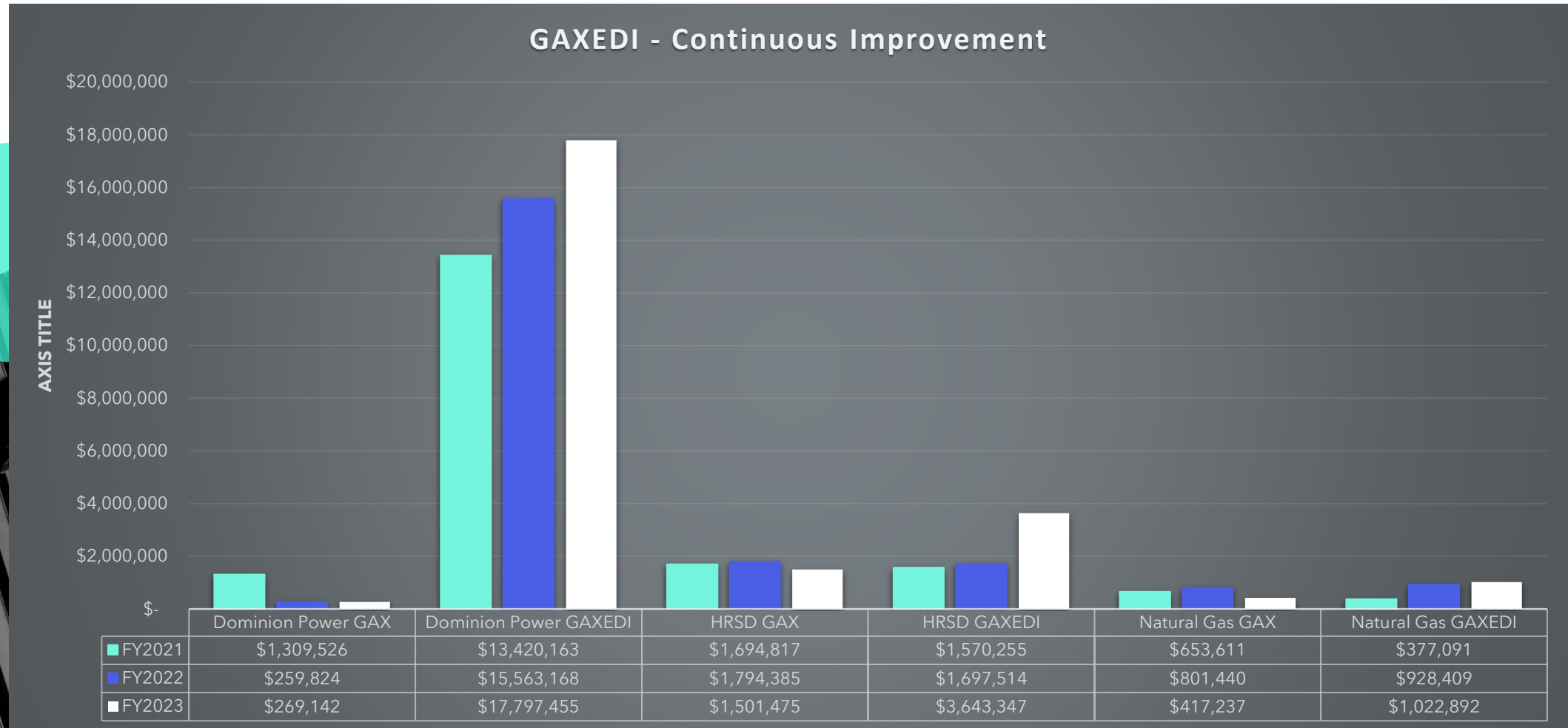
GAXEDI-Continuous Improvement

CONTINUED PROGRESS

	Dom VA Power		HRUBS - HRSD		Virginia Natural Gas		
<u>FY2023</u>	5290 - Electricity	%	5374 - Water and Sewer	%	5287 - Natural Gas	%	Total
Paid on GAX	\$269,142	1.5%	\$1,501,475	29.2%	\$417,237	29%	\$2,187,855
Paid on GAXEDI	17,797,455	98.5%	3,643,347	70.8%	1,022,892	71%	22,463,694
Total	\$18,066,597		\$5,144,822		\$1,440,130		
<u>FY2022</u>	5290 - Electricity	%	5374 - Water and Sewer	%	5287 - Natural Gas	%	Total
Paid on GAX	\$259,824	1.6%	\$1,794,385	51.39%	\$801,440	46.33%	\$2,855,649
Paid on GAXEDI	15,563,168	98.4%	1,697,514	48.61%	928,409	53.67%	18,189,091
Total	\$15,822,992		\$3,491,899		\$1,729,849		
<u>FY2021</u>	5290 - Electricity	%	5374 - Water and Sewer	%	5287 - Natural Gas	%	Total
Paid on GAX	\$1,309,526	8.9%	\$1,694,817	51.9%	\$653,611	63.4%	\$3,657,955
Paid on GAXEDI	13,420,163	91.1%	1,570,255	48.1%	377,091	36.6%	15,367,510
Total	\$14,729,689		\$3,265,072		\$1,030,702		

GAXEDI-Continuous Improvement

CONTINUED PROGRESS



TRAVEL EXPENSES

We examined travel expenses to determine compliance with the City of Norfolk travel policy and identified thirty-one exceptions in the following areas.

Responsibilities:

2.1 – Travelers are responsible for timely submission of all required paperwork upon return from their travel.

2.2 – Supervisors are responsible for ensuring compliance with this travel policy and that all required documentation is accurate and submitted in a timely fashion to the Department of Finance.

Mileage Reimbursement: City Travel Policy - 5.1 Private Automobile

5.1.1 - Mileage shall be documented through the use of independent documentation (MapQuest, Google, etc.) of the length of the trip from the employee's normal work location to the destination and back or from the employee's home to the destination and back, whichever is less.

FY23

- Mileage Reimbursement Issues
 - Missing Receipts for Mileage Reimbursement.

FY22

- Mileage Reimbursement Issues
 - Employees not using shorter distances for reimbursement between home or the office.
 - Lack of receipts provided for mileage reimbursement.

TRAVEL EXPENSES

Car Rental: City Travel Policy - 5.1 Rental Cars

5.1.2 – The rental vehicle chosen must be the most economical available, given the purpose for which the vehicle for which the vehicle will be used.

FY23

- FY22 Non-Compliance
 - No results found.

FY22

- FY22 Non-Compliance
 - Failure to select the most economical option.

TRAVEL EXPENSES

Air Fare: City Travel Policy - 5.1 Air or Train

5.1.3 – The fare of commercial transportation on any trip should not exceed the lowest available standard economy fare except when an economy fare is not available.

FY23

- Travel Compliance Issues
 - No results found.

FY22

- Travel Compliance Issues
 - Seat upgrades post-purchase.
 - Lack of receipts provided.

TRAVEL EXPENSES

Lodging: City Travel Policy - 5.2 Lodging

2.1 – Travelers are responsible for timely submission of all required paperwork upon return from their travel.

FY23

- Receipt Compliance Issues
 - Employee did not attach a hotel receipt.

FY22

- Receipt Compliance Issues
 - Lack of receipts provided.

TRAVEL EXPENSES

Per Diem: City Travel Policy - 5.3 Meals

5.3.1 - Meals will be reimbursed on a Per Diem basis using the IRS guidelines for reimbursement in the destination city. Individual meal reimbursement amounts are located in the link below and dependent upon the destination of travel.

5.3.3 - When meals are provided at no cost in conjunction with travel events, the applicable Meals and Incidental Expenses (M&IE) per diem reimbursement rate shall be reduced by the amount shown for the applicable meal in the M&IE Rate Table on the website.

FY23

- Misuse of Funds
 - Employees overpaid per diem.
 - Employee used the city BOA credit card to purchase food while traveling.

FY22

- Misuse of Funds
 - Per Diem issued despite provided meals.

TRAVEL EXPENSES

FY23

- Non-Compliant Travel Transactions - 13 transactions identified outside travel guidelines
 - 5 toll charges
 - Rental car expenses to utilize grant funds
 - Tire repair on a rental car
 - Rental car for foster parents
 - Membership fees
 - Training class expenses
 - Certification fees
 - Purchase of tools
 - Fuel for Fleet vehicles

FY22

- Non-Compliant Travel Transactions - 3 transactions identified outside travel guidelines
 - Amazon TV
 - Fuel for Fleet vehicles
 - Purchase of table traps

RECOMMENDATION

Travel Policy Adherence: It's essential to correct any misuse of travel object codes promptly to ensure they are not used for non-travel-related expenses, thereby maintaining accurate financial reporting.

1. Ensure travelers follow policy by providing receipts and selecting the most economical options.
2. Per diem reimbursement may require adjustment when meals are provided at no cost during travel events, per the Meals and Incidental Expenses (M&IE) Rate Table.
3. It is of utmost importance that each employee is responsible for providing independent documentation for mileage requests from the appropriate location. Following mileage policy ensures the accuracy and reliability of the information, reflecting our commitment to transparency and accountability.
4. Ensure the most economical rental vehicle is selected based on the travel policy.
5. Select the most economical fare for airfare and ensure the employee purchases all upgrades.
6. Request all reimbursement requests to include receipts.
7. It is crucial to adhere to IRS guidelines for per diem meal reimbursements based on the destination city. Following the Per Diem policy ensures that our reimbursement process aligns with regulatory standards.

SWaM (Small, Women-owned and Minority owned Business)

The City uses Sysoft, a third-party vendor to assist with monitoring and tracking minority spending. During our expenditure review, our analysis of diversity spending revealed, we noted the following:

- FY22 – the City of Norfolk expended 0.57% to Women-Owned and 0.46% to Minority-Owned businesses
- FY23 – the City of Norfolk expended 1.16% to Women-Owned and 0.61% to Minority-Owned businesses

These amounts fall below the City Council's targets of 12% and 13% for FY 2022 and FY 2023, respectively.

Vendor Expenditure Classification Issue:

- Purchases from vendors with multiple certifications were reported under multiple categories which were then added to result in an overstated total amount.
- Reported total spending: \$67,656,158
- Inclusion of multiple certifications, these figures were inflated by \$9,585,237
- Actual FY 2022 spending: \$58,070,920

Vendor Expenditure Classification Issue:

- Purchases from vendors with multiple certifications were reported under multiple categories which were then added to result in an overstated total amount.
- Reported total spending: \$70,500,027
- Inclusion of multiple certifications, these figures were inflated by \$20,225,391
- Actual FY 2023 spending: \$50,274,636

Omission in Reporting:

- Expenditures related to specific certifications omitted
- Unreported amount: \$68,252 for FY 2022 related to the Economically Disadvantaged Women-Owned Small Business and Federal Service-Disabled Veteran-Owned Disabled Veteran Owned certifications

Omission in Reporting:

- Expenditures related to specific certifications omitted
- Unreported amount: \$2,520,671 for FY 2023 related to the Economically Disadvantaged Women-Owned Small Business and Federal Service-Disabled Veteran-Owned Disabled Veteran Owned certifications

RECOMMENDATION

SWAM Reporting Improvements: Address discrepancies in diversity spending reports and improve accurate vendor certification reporting with Sysoft, the third-party vendor monitoring diversity spending.

1. The City should designate a department to work with Sysoft to update the software so that expenses are accurately reflected based on the vendor's certification.
2. Departments should increase their use of SWAM vendors to meet the City Council's target.

Note: *The City has utilized Sysoft for approximately two years, and while it remains a relatively new addition, there are ongoing efforts to address operational challenges.*

TEMPORARY EMPLOYEE AGENCIES

We reviewed employees hired through a temporary agency to ensure compliance with City Policy and Vendor Contracts. We found a total of thirty-three exceptions, including the following:

		<u>FY23</u>		<u>FY22</u>
Misclassification of the temporary employee object code			2	\$84
Supervisors from the City of Norfolk did not sign timesheets	2	\$8,595	2	1,646
The vendor contract omits temporary employees' job titles	32	38,595	13	23,827
Pay rate exceeds contract rate	5	912	3	10,975
Temporary employees failed to sign a timesheet			1	306
Discrepancy between reported and worked hours	1	9	1	88
Temporary employees worked OT	6	1,761	3	623
Temporary employees are paid OT without working 40 hours			2	434
Temporary employees paid OT due to lunch not deducted	2	40	3	1,533
Temporary employees worked on a City holiday			2	649
Temporary employee are underpaid due to rounding			1	462
TOTAL		\$49,912		\$40,627

TEMPORARY EMPLOYEE AGENCIES BY DEPARTMENT

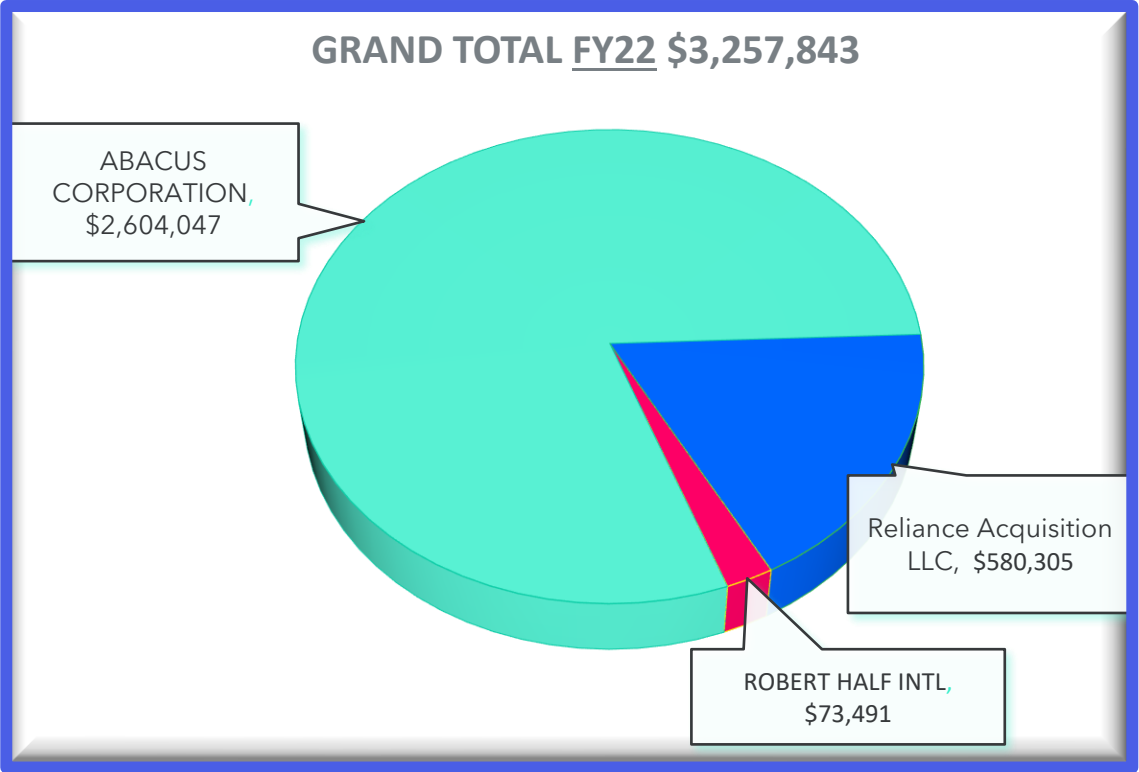
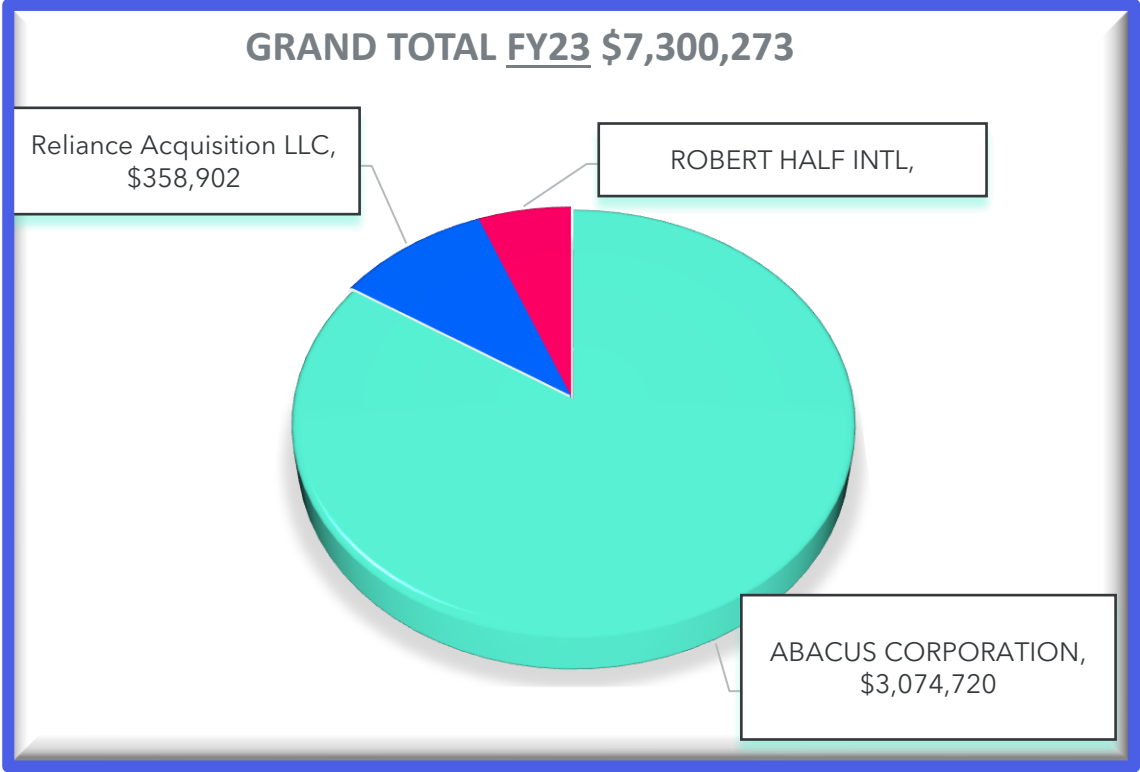
Top 10 Expenditure Amounts

<u>Departments</u>	<u>Amounts</u>
Norfolk Community Services Board	\$853,422
Recreation Parks and Open Space	769,455
Water	352,350
Parking Facilities Fund	347,048
Waste Management	210,482
Human Services	209,627
Development	143,856
Human Resources	141,357
General Services	130,116
Storm Water Management	111,281

<u>Departments</u>	<u>Amounts</u>
Recreation Parks and Open Space	\$665,340
Norfolk Community Services Board	570,062
Water	475,311
Parking Facilities Fund	343,117
Waste Management	215,943
Human Services	182,139
Human Resources	142,890
Development	120,499
Storm Water Management	110,231
Wastewater	92,248

TEMPORARY EMPLOYEE AGENCIES BY VENDOR

Top 10 Expenditure Amounts



RECOMMENDATION

Temporary Employee Oversight: Ensure accuracy in timesheets and align vendor contracts with city policies for temporary agency hires.

1. Supervisors should review temporary employees' timesheets for accuracy to ensure timely and accurate payment.
2. Update contracts to reflect the positions and rates for the requested services.
3. Ensure payment to temporary employees at the contracted rate.
4. Prevent temporary employees from working overtime or on holidays.
5. Renegotiate the contract with the vendors we use for temporary employees to include job titles and rates.
6. Timesheets and invoices need to be uploaded into AFMS.

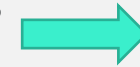
Conclusion



The City expended \$399 million in FY2023 and \$382 million in FY2022 exclusive of personnel costs



These expenditures varied by:



- Procurement method
- Type of item
- Procuring entity – centralized and decentralized



We found effective systems in place and in use to manage this volume of procurement activity



THANK YOU

If you have any questions, I can be reached at 757-409-2518 or via email at Tammie.Dantzler@norfolk.gov