



## CITY OF COLLEGE STATION

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**TO:** Audit Committee Members  
**FROM:** Ty Elliott, City Internal Auditor  
**DATE:** September 7, 2012  
**SUBJECT: Draft Convention & Visitors Bureau (CVB) Follow-up Audit Report**

The CVB follow-up audit was conducted in accordance with the fiscal year 2012 audit plan. This audit report summarizes the CVB audit report's recommendations and the audit follow-up findings, which describe how CVB management has implemented the auditor's recommendations. This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States.

- Audit Recommendation:*** *The CVB should not use city HOT funds to hire consultants to provide information to city officials in order to influence policy decisions. Being able to control (1) the scope of work of a study and (2) the data the study produces can lead to data manipulation. Consequently, information said to be the result of a consultant's study is less reliable when the consultant's client has a strong incentive for the results to be favorable. The City Council may desire to have studies conducted to determine the best uses of HOT funding, return on investment of HOT allocations, or the estimated spending of those visiting the City. If the City Council requests to know this type of information, they should direct city staff to use HOT funds to commission the consultant work.*

**Audit Follow-up Finding:** Sufficient evidence demonstrating the implementation of the audit recommendation was found. We examined all consultant service contracts the CVB solicited in fiscal year 2012. Based on our review of the scope of services of these contracts, we were able to determine that none of the services employed could be used in a way that would be contrary to the audit recommendation.

- Audit Recommendation:*** *The CVB should increase efforts to collect more accurate and reliable pickup and room rate data from area hotels. This could be done by effectively communicating to area hotels that CVB funding is dependent upon gathering this information. If area hotels value the service the CVB provides to them, they should be willing to offer information that cost them very little to provide.*

**Audit Follow-up Finding:** See finding at the top of the next page.

- Audit Recommendation:*** *The CVB should update the type of measures they are reporting to the City. The measures reported should be reliable, clear, and concise. They should also effectively*

measure CVB workload and outcome. The CVB may stop reporting several measures that currently don't fit these criteria in order to focus on more meaningful and accurate reporting.

**Audit Follow-up Finding:** Sufficient evidence demonstrating the implementation of audit recommendations two and three were found. The performance measures reported to the City of College Station have undergone significantly positive change. We reviewed all the documents the CVB submitted to the City in fiscal year 2012. Based on this review, we were able to determine that the newly revamped CVB reports more accurately and reliably reflect actual performance of the CVB. The measures reported are more reliable, clear, and concise. They also effectively measure CVB workload and outcome in a more easily understood format.

4. **Audit Recommendation:** *The CVB Executive Director should develop written policies and procedures that adequately govern the daily operations of CVB personnel. The policies should be designed to (1) promote conformance with HOT rules and regulations and (2) provide assurance that HOT funds are being safeguarded and appropriately spent. Personnel should receive training regarding these written policies and procedures when they are initially hired and periodically throughout the term of their employment.*

**Audit Follow-up Finding:** Sufficient evidence demonstrating the implementation of the audit recommendation was found. We examined the CVB's Employee Handbook and Policies & Procedure Manual, which were both adopted in November 2011. Based on this review, we were able to identify specific guidance given to employees that address the audit's findings. Compliance with the rules outlined in these documents will significantly mitigate the risk of misuse of CVB funding.

5. **Audit Recommendation:** *If the CVB continues to use an accountable plan to account for employee purchases, employees should be required to provide sufficient documentation to justify the business expense—providing non-itemized receipts is not sufficient documentation. If the employee cannot provide sufficient documentation to prove that the purchase met a legitimate business need, they should be required to pay for the purchase.*

**Audit Follow-up Finding:** See the finding below recommendation six.

6. **Audit Recommendation:** *The CVB Executive Director should no longer endorse travel expenditures on entertainment or inter-organizational parties that use College Station HOT funds as a funding source. If the CVB wishes to continue to make these types of expenditures, they should expend funds from an account where City HOT funds are not maintained. For example, they could use funds from the events account for staff entertainment or party expenditures.*

**Audit Follow-up Finding:** Sufficient evidence demonstrating the implementation of audit recommendations five and six were found. The CVB drafted several new policies and procedures that sufficiently address recommendations five and six. To test compliance with these policies and procedures adopted in November 2011, we randomly selected 30 expense reports for review. From these 30 expense reports, over 300 transactions were examined. In all but three instances, documentation was sufficient to justify the business expense of the transaction. The total for these three transactions were under \$200 and additional justification was provided for the exceptions—which was adequate for us to conclude that the purchases were for appropriate business needs. In addition, no evidence was found of expenditures made for staff entertainment or inter-organizational parties that use College Station HOT funds as a funding source. On the contrary, we found significant evidence of CVB efforts to curb spending. For example, there were instances of CVB staff sharing hotel rooms, splitting meals and cab fares, or attending conferences at reduced costs.

7. **Audit Recommendation:** *Adequate supervision of purchases needs to become a focal point of CVB management. Purchases such as gifts, alcohol, or local meals should have a greater deal of*

*scrutiny because they can easily be interpreted as non-legitimate business expenditures. An approval hierarchy should be implemented, where the individual approving the transaction is sufficiently independent to be able to not approve the requested expense reimbursement if inadequate documentation is provided to determine the business purpose of the purchase.*

**Audit Follow-up Finding:** Sufficient evidence demonstrating the implementation of the audit recommendation was found. Based on our review of the 30 randomly selected expense reports, we discovered that all reports showed evidence of proper review and approval. In addition, we found no evidence of inappropriate transactions for alcohol, gifts or other high-risk purchases. In addition, the CVB not only made changes to their policies and procedures, but they also made changes to their expense reports—thereby approving accountability. For example, the CVB now requires their employees to spend no more than federal per diem allotments on meals during business trips. During our review, we also verified compliance with this new policy.

8. **Audit Recommendation:** *Existing controls over check purchasing processes need to be enforced and updated. Future check processing controls should require the signatures of the CVB Executive Director or her designee and a board member on every check. There should be a system of internal control that prevents two employees or two board members from signing any check.*

**Audit Follow-up Finding:** We were unable to discover sufficient evidence to determine full implementation of the audit recommendation.

The CVB provided us with sufficient documentary evidence to show that they changed who has authority to sign checks. Currently, only the CVB Executive Director and three other executive board members have the authority to sign checks—which is in alignment with the audit recommendation.

We also reviewed the monthly bank statements that occurred in fiscal year 2012. These statements contain the scanned copies of all processed checks. Based on this review, there appeared to be 24 checks totaling approximately \$19,000 that only had one signature. One of these checks was made out to a CVB employee for \$187. However, it was signed by a CVB board member, which reduces the likelihood that fraud is involved. In addition, no payees on any of these checks were also a signatory. There was sufficient documentation to conclude that all other checks complied with the audit recommendation.

CVB personnel were surprised that any checks were found that did not comply with the audit recommendation. Therefore, bank personnel (at the bank the CVB patrons) were contacted to attempt to identify an alternative explanation. According to these banking professionals, certain types of ink from “gel pens” *may* not show up on their scanners. These types of pens are not common in a business setting, and should not be used to sign official documents such as checks. We also interviewed key bank personnel at another prominent local bank, and we were told that their scanners pick up all ink regardless of the type.

9. **Audit Recommendation:** *Because the CVB is a small organization, implementing proper separation of duties as a security control may not be feasible. Therefore, increased management oversight over the accounting system should be implemented as a mitigating control. The Executive Director should become familiar with the QuickBooks system and the features that allow her to review voided transactions and other high risk expenditures. For example, the CVB Executive Director could review voided transaction or audit trail reports on a periodic basis to verify that inappropriate adjustments are not being made to cover fraudulent behavior.*

**Audit Follow-up Finding:** Acceptable evidence demonstrating the implementation of the audit recommendation was found. According to the CVB Executive Director, she has begun to take steps to become more familiar with the CVB’s accounting system. In addition, the Executive Director

stated that she periodically reviews voided transaction reports given to her by the CVB's accountant. I reviewed documentation of these reports that appeared to have comments written by the Executive Director. Although efforts to implement the audit recommendation appear to have been made, there is still room for improvement in this area. This could be accomplished if the Executive Director had "view only/report" access to the CVB's accounting system so she could independently produce and review the voided transaction or audit trail reports.