AUDIT OF COVID-19 RESPONSE

Disaster Reimbursements

ABSTRACT

The City has generally established effective controls over expenses to ensure reimbursements are maximized. Formalization of the reimbursement submission process and additional guidance on reimbursable expenses would increase efficiency.

Internal Audit Department

CITY OF DENTON

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Audit at a Glance

Why we did this Audit:

Since the beginning of the City's emergency declaration, about $2.5 million has been spent in response to the COVID-19 pandemic. A significant portion of this amount may be eligible for reimbursement. This audit was included as part of the COVID-19 Response Audit Series which was included on the City's amended fiscal year 2019-20 Audit Plan as approved by the City Council.

What we Recommend:

Recommendation 1
Finance should release general guidance for employees on what categories of work and expenses are considered COVID-19 related.

Recommendation 2
Procurement should ensure Requisition Forms are complete and accurately correspond to the purchase order and any associated contract for all COVID-19 related purchases.

Recommendation 3
Ensure all COVID-19 related timecards are complete and signed.

Recommendation 4
Finance should formalize the process for preparing, reviewing, and submitting disaster reimbursement packets to grantors.

What we Found:

In general, the City has established effective controls over reimbursable disaster expenses; however, increased documentation could further reduce the risk that reimbursements are rejected. The following discusses our findings for each major area reviewed:

Expense Tracking. The COVID-19 expense tracking process effectively ensures that all potentially reimbursable expenses are reported to the Finance Department. The reimbursement packet preparation process could be further streamlined if Finance released general guidance on what expenses and work are considered COVID-19 related.

Expense Documentation. Generally, all expenses had adequate supporting documentation. That being said, some minor inconsistency could increase the chance that some of the City's reimbursement submissions are rejected. Ensuring that these inconsistencies are corrected will reduce this risk. Finance has generally designed a process to ensure that these inconsistencies are corrected; however, it had not yet been used during the audit period.

Reimbursement Submission Process. The City has created a Cost Recovery Team which is primarily responsible for identifying and applying for disaster reimbursement opportunities. The Cost Recovery Team has also identified a well-designed process for preparing and submitting reimbursement packets to relevant grantors; however, there is no formalized policy manual or standard operating procedure to guide staff. Formalizing this process would facilitate consistency, help retain institutional knowledge, and provide a guide during future emergency situations.

Introduction

The City Auditor is responsible for providing: (a) an independent appraisal[1] of City operations to ensure policies and procedures are in place and complied with, inclusive of purchasing and contracting; (b) information that is accurate and reliable; (c) assurance that assets are properly recorded and safeguarded; (d) assurance that risks are identified and minimized; and (e) assurance that resources are used economically and efficiently and that the City's objectives are being achieved.

The Internal Audit Department has completed a performance audit of the COVID-19 disaster reimbursements processes. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management Responsibility

City management is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Audit Objectives, Scope, and Methodology

This report is intended to provide assurance that the City has established adequate controls over disaster-related expenses to maximize COVID-19 related reimbursements.

Audit fieldwork was conducted during May of 2020. The scope of review varied depending on the procedure being performed. The following list summarizes major procedures performed during this time:

- Reviewed documentation to develop criteria including industry standards, best practices, policies, and procedures*;*

- Developed process narratives to identify current control activities that was certified by two Assistant Finance Directors, the Budget Manager, and the Payroll Coordinator; and

- Reviewed supporting documentation for COVID-19 related purchase orders, procurement card transactions, and payroll expenses.

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[1] The City of Denton Internal Auditor's Office is considered structurally independent as defined by generally accepted government auditing standard 3.56.

Findings & Analysis

On March 13th, 2020, the City of Denton (City) issued a declaration of local disaster for public health emergency to minimize the potential impact of COVID-19. As of May 20th, 2020, the City has expended almost $2.5 million in response to the COVID-19 pandemic (see Table 1).

Table 1: COVID-19 Costs (March 13th – May 20th, 2020)

Expense Category	Total
Personnel Costs	$1,906,000
Assistance Costs	$342,000
Materials and Supplies	$201,000
Total:	$2,450,000

A significant portion of this amount may be eligible for reimbursement from Federal, State, and local agencies. This audit evaluated disaster reimbursement procedures based on the Federal Emergency Management Agency's (FEMA) requirements as they are generally the most stringent; however, it should be noted that the City may also seek reimbursement from other sources. The Finance Department has identified the following significant sources of reimbursement for the City:

➢ Coronavirus Aid, Relief, and Economic Security (CARES) Act though Denton County; and

➢ FEMA's Public Assistance Programs.

Disaster Expense Tracking is Effective; Additional Guidance May Increase Efficiency

FEMA's Disaster Financial Management Guide[2] recommends that jurisdictions do the following:

➢ Activate and use disaster accounting general ledger lines;

➢ Log and track time and expenses; and

➢ Document all expenditures related to response and disaster impacts.

Based on our discussions with Finance staff, reimbursable expenses are generally incurred in one of three ways: purchase orders (POs), procurement card (p-card) transactions, and payroll expenses.

What We Found

• The Finance Department has established an accounting subledger to track expenses related to COVID-19. Guidance was distributed to City employees on how to code operating and payroll expenses to this subledger in the City's accounting system.

   o The Finance Department has not released guidance on what types of commodities or services are considered disaster related. This is due in part to the changing and unclear guidance provided by FEMA and other grantors.

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[2] The referenced guide was published in April 2020.

- Staff are conservatively coding operating expenses to the COVID-19 subledger.

  o Based on a sample review of thirty purchase orders and fifty p-card transactions not coded to the COVID subledger, we found only one p-card transaction that potentially should have been coded to the COVID subledger. All others appeared to be non-COVID related.

  o Of the twenty-two purchase orders[3] coded to the COVID-19 subledger, three did not have adequate documentation describing how the purchase was related to the disaster response. These purchase orders were related to the purchase of a prisoner transport van and the regular purchase of paper products (i.e. toilet paper, paper towels, etc.)

Table 2: Purchase Order Coding Summary

Category	No. of POs	Value Ordered
Adequate Description	19	$354,498.19
Prisoner Van	2	$46,964.00
Paper Products	1	$20,868.60
All:	22	$422,330.79

  o Of the 184 p-card transactions[4] coded to the COVID-19 subledger, twenty-eight transactions did not have adequate documentation describing how the purchase was related to the disaster response.

Table 3: P-Card Coding Summary

Category	No. of Transactions	Value
Adequate Description	156	$58,240.90
Telecommuting Equipment	14	$18,559.81
Food – Inadequate Description	6	$2,267.25
Other	8	$1,038.10
All:	184	$80,106.06

  ▪ Fourteen of these transactions were for telecommuting equipment. While purchasing telecommuting equipment is not inappropriate and is generally an indirect result of the Pandemic, it may be difficult to prove that these expenditures are related to the disaster response – especially if telecommuting continues after the disaster declaration is ended.

- Staff generally appears to be effective at reporting disaster-related work hours; however, some descriptions of the work performed could be more detailed.

  o Of the 629.75 COVID-coded hours[5] reviewed, 177.75 hours did not have adequate documentation to describe how the work completed was related to the disaster response.

    ▪ Some work descriptions were very general such as "COVID19 response, budget, staffing, VSP." While this work was likely related to the disaster

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[3] Reviewed all purchase orders issued between March 13 and May 13 that were coded to the COVID-19 subledger.

[4] Reviewed p-card transactions coded to the COVID-19 subledger that occurred between March 13 through May 7.

[5] Reviewed ten randomly selected timecards submitted per pay periods ending on 3/20/20, 4/3/20, 4/17/20, and 5/1/20.

response, it does not detail what work was completed and may be rejected by potential grantors.

- Similarly, some work descriptions appeared to be related to telecommuting such as "set up home system" or "taking remote calls; entering tickets; assisting employees." While telecommuting has drastically increased due to the Pandemic, it may be difficult to prove that this is disaster response work – especially if telecommuting continues after the disaster declaration is ended.

Table 4: Payroll Coding Summary

Category	Hours
Adequate Description	452.00
General Description	99.00
Increased Telecommuting Response	59.00
Other	19.75
All:	629.75

- The Finance Department plans to eventually move reimbursed expenses into a specific ledger where reimbursement revenue will be recognized. Non-reimbursed expenses will remain in the COVID-19 subledger. This accounting system should allow the City to effectively track its COVID-19 related costs.

Why It Matters

The Finance Department has effectively established and communicated a tracking system for disaster-related costs, which will facilitate the reimbursement packet submission process. In addition, creating separate funds to account for reimbursement revenues will ensure that accounting practices are appropriate and in line with government accounting standards.

That being said, providing general guidance on what type of expenses and work are related to the disaster response may facilitate the reimbursement packet preparation process. In particular, clear direction on telecommuting expenses, the distinction between disaster-related work and normal operations, and the level of description needed for timecards may help weed out non-reimbursable expenses before submission to the Finance Department. This would increase the efficiency of the process as there will be fewer expenses to sort through.

Recommendation:

1. Release general guidance for employees on what categories of work and expenses are considered COVID-19 related.

   Finance Department Comments: The Finance Department concurs with this recommendation. In March, at the start of the pandemic, the Finance Department emailed all City Departments with instructions for tracking COVID related expenses. This communication was focused on casting a wide net through the organization capturing all possible COVID related expenses. However, prior to submitting for reimbursement the Finance Department will review all expenses for accuracy and supporting documentation. Today, all COVID related expenses are being tracked accounting to this initial communication. However, the Finance Department agrees that updated communication and documentation should be sent to departments

regarding COVID expenses. In response to this recommendation the Finance Department will send additional communication to departments in the coming weeks.

Reimbursable Expenses are Generally Well Supported

To receive reimbursement, the City must ensure it has detailed and thorough documentation of all disaster-related expenses. All expenses must be adequately approved, but have different supporting documentation requirements as summarized on the next page:

➢ Purchase Orders should have documentation to show compliance with purchasing regulations;

➢ Procurement Card (P-Card) Transactions should have itemized and detailed receipts; and

➢ Payroll Expenses should have completed timecards.

What We Found

- All nineteen COVID-19 related purchase orders were procured in accordance with procurement regulations.

  o In addition, we found that the Purchasing Division has begun issuing Informal Request for Proposals before purchasing scarce commodities such as masks, thermometers, and cleaning products. Continued use of this process will provide further assurance that the City is receiving the best value for these items.

  o For ten of the purchase orders, the Requisition Form was incomplete or inaccurate which made it difficult to tell if the procurement complied with procurement regulations. All identified documentation issues were corrected during the audit. While the Requisition Form is not an official procurement document, it provides details of the procurement history that may decrease the possibility that the City's submitted expenses are rejected for reimbursement.

- Generally, p-card transactions had adequate receipts attached in the City's Certify system.

  o Eleven p-card transactions did not have an itemized receipt and four did not have an adequately detailed receipt.

- Of the forty timecards reviewed, twenty-nine were fully complete. The remaining eleven were typically missing the time in and out fields.

  o Missing details may increase the chance that reimbursement submissions are rejected so the Finance Department should ensure these details are completed when preparing the reimbursement packet. That being said, all timecards contained critical details such as a description of the work completed, and the number of hours devoted to this work.

- Twenty-seven of the forty reviewed timecards were missing the necessary signatures. Given that all employee time is eventually approved in the City's time keeping system by the employee's supervisor, there is adequate approval of these expenses. Still, the Finance Department should ensure that all timecards have adequate signatures before submitting for reimbursement to avoid the risk of the submissions being rejected.

Why It Matters

It is particularly important to have adequate supporting documentation for expenses when submitting them for reimbursement. Without adequate documentation, the City risks submitted expenses being rejected and thus may not be reimbursed. Generally, most COVID-19 related expenses had adequate documentation to support reimbursement; however, the Finance and Procurement Departments should ensure that some minor inconsistencies are resolved before submission to the grantor.

It should be noted that all documentation reviewed as a part of this audit had not yet been vetted by the Finance Department. According to Finance, identifying and correcting these inconsistencies is part of their reimbursement packet submission process, which had not yet been completed during the audit period.

Recommendation:

2. Ensure Requisition Forms are complete and accurately correspond to the purchase order and any associated contract for all COVID-19 related purchases.

   Procurement Department Comments: The Procurement Department concurs with this recommendation. Before submitting the final documentation for reimbursement, Procurement staff will work with the using department to ensure all documentation is clear and accurate. Procurement staff have corrected the incomplete or inaccurate requisition forms. We have also requested itemized receipts from the p-card holders who did not provide those initially. The Procurement Department is sending a reminder communication to remind supervisors who approve p-card transactions to check for itemized receipts before approving.
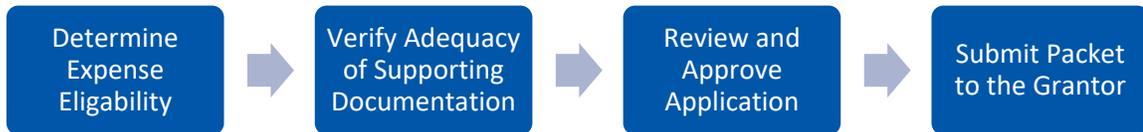
3. Ensure all COVID-19 related timecards are complete and signed.

   Finance Department Comments: We agree. As part of the Finance department's review process before submitting expenses to federal funding, we have procedures in place to document the status of all time coded to COVID-19. It documents whether a timecard exist, what function was worked, is the timecard signed, and is the time worked eligible. If any of the information is missing, Finance will reach out to the department for completion before any submittal. Additionally, as part of the department's submittal process, secondary reviews will take place before submittal to ensure the backup is complete, accurate, and eligible.

Reimbursement Submission Process is Well Designed but Should be Formalized

In order to receive reimbursement, the City must submit disaster-related expenses to the grantor. It is important during this process to ensure that staff verifies that expenses meet eligibility requirements, that expenses are adequately supported, and that the grant applications are formally approved before submission. This is illustrated in the figure below:

Figure 1: Reimbursement Packet Submission Process Summary

Determine Expense Eligability	→	Verify Adequacy of Supporting Documentation	→	Review and Approve Application	→	Submit Packet to the Grantor

What We Found

- As part of the City's Emergency Operation Center activation, a Cost Recovery Team was created consisting of staff from the Accounting, Budget, Payroll, and Purchasing Divisions of the City. This Team is responsible for identifying and applying for reimbursement opportunities.

  - The Cost Recovery Team had not submitted any reimbursement packets for general government expenditures by June 1, 2020; however, a plan has been developed and presented to the City Council that focuses on maximizing reimbursements.

- The Cost Recovery Team has developed a well-designed process for preparing and submitting reimbursement packets (see **Appendix B**).

  - Each day, Budget staff reviews COVID-19 coded expenses and generally determines if the expenses meet reimbursement eligibility requirements and has adequate supporting documentation. As mentioned previously, it is currently difficult for City staff to determine what expenses are eligible for reimbursement due to the unprecedented nature of the COVID-19 Pandemic. That being said, the Cost Recovery Team has been monitoring guidance issued by the relevant grantors.

  - Once the packet is prepared, it is reviewed by the Cost Recovery Team. It may be useful to more clearly define who should review the packet and if they are reviewing for allowability, adequate support, or both. Clearly identifying who is responsible for reviewing minimizes confusion and increases accountability.

  - Finally, the reimbursement packet must be approved by the Finance Director before being submitted. It may be appropriate to require City Council approval before submitting any disaster-related reimbursement packets; however, time constraints may make this step unfeasible in an emergency.

- The City has established the "Disaster Finance Plan for FEMA Reimbursement." In general, this Plan appears to be focused on weather-related events and provides guidance to employees on what expenses and work are eligible for weather-related disaster reimbursements. It does not outline the reimbursement packet preparation or submission process.

Why It Matters

The Finance Department appears to have a well-designed plan for preparing and submitting reimbursement packets to the identified grantors. Formalizing a plan or standard operating procedures would facilitate consistency, help retain institutional knowledge, and provide a guide during future emergency situations.

Recommendation:

4. Formalize the process for preparing, reviewing, and submitting disaster reimbursement packets to grantors.

   Finance Department Comments: The Finance Department concurs with this recommendation. The City's Disaster Finance Plan was last updated in 2017 and doesn't address pandemics. Additionally, the plan needs clarification on preparing and submitting reimbursement packets to the Federal Emergency Management Association (FEMA). However, the existing plan is considered our official reimbursement guidance document for the current disaster. The Finance Department will update the plan in the fall of 2020 and make it available to all City Departments.

Appendix A: Management Response Summary

The following summarizes the recommendations issued throughout this report. The auditors found that staff and the Department were receptive and willing to make improvements to controls where needed.

1	*Release general guidance for employees on what categories of work and expenses are considered COVID-19 related.*	**Concur**	Expected Completion:
Finance Department Comments: The Finance Department concurs with this recommendation. In March, at the start of the pandemic, the Finance Department emailed all City Departments with instructions for tracking COVID related expenses. This communication was focused on casting a wide net through the organization capturing all possible COVID related expenses. However, prior to submitting for reimbursement the Finance Department will review all expenses for accuracy and supporting documentation. Today, all COVID related expenses are being tracked accounting to this initial communication. However, the Finance Department agrees that updated communication and documentation should be sent to departments regarding COVID expenses. In response to this recommendation the Finance Department will send additional communication to departments in the coming weeks.			Responsibility:

2	*Ensure Requisition Forms are complete and accurately correspond to the purchase order and any associated contract for all COVID-19 related purchases.*	**Concur**	Expected Completion:
Procurement Department Comments: The Procurement Department concurs with the recommendation. Before submitting the final documentation for reimbursement, Procurement staff will work with the using department to ensure all documentation is clear and accurate. Procurement staff have corrected the incomplete or inaccurate requisition forms. We have also requested itemized receipts from the p-card holders who did not provide those initially. The Procurement Department is sending a reminder communication to remind supervisors who approve p-card transactions to check for itemized receipts before approving.			Responsibility:

3	*Ensure all COVID-19 related timecards are complete and signed.*	**Concur**	Expected Completion:
Finance Department Comments: We agree. As part of the Finance department's review process before submitting expenses to federal funding, we have procedures in place to document the status of all time coded to COVID-19. It documents whether a timecard exist, what function was worked, is the timecard signed, and is the time worked eligible. If any of the information is missing, Finance will reach out to the department for completion before any submittal. Additionally, as part of the department's submittal process, secondary reviews will take place before submittal to ensure the backup is complete, accurate, and eligible.			Responsibility:

4	*Formalize the process for preparing, reviewing, and submitting disaster reimbursement packets to grantors.*	**Concur**	Expected Completion:
Finance Department Comments: The Finance Department concurs with this recommendation. The City's Disaster Finance Plan was last updated in 2017 and doesn't address pandemics. Additionally, the plan needs clarification on preparing and submitting reimbursement packets to the Federal Emergency Management Association (FEMA). However, the existing plan is considered our official reimbursement guidance document for the current disaster. The Finance Department will update the plan in the fall of 2020 and make it available to all City Departments.			Responsibility:

Appendix B: Reimbursement Packet Submission Process

The following flowchart was prepared based on discussions with staff from the City's Budget and Payroll Divisions and is intended to help formalize the process for reimbursement packet submission.