



Office of Inspector General

City of New Orleans

A Report on the French Market Corporation's Credit Card and Expense Reimbursement Policies

OIG-A&R-10MAR011

**E.R. Quatrevaux
Inspector General**

Issued June 8, 2011

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Policies
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EXECUTIVE SUMMARY

The French Market Corporation (“FMC”) is a non-profit corporation owned by the City of New Orleans (“the City”) and administered by a twelve member Board of Directors appointed by the Mayor.

This report is issued to offer timely recommendations and observations that affect the FMC’s policies and procedures relating to credit cards¹ and expense reimbursements, as requested by the mayor’s office.

The Office of Inspector General conducted a review of the FMC’s policies and procedures regarding credit card usage and expense reimbursements for the period July 1, 2007 through July 31, 2010. The objective of this review was to evaluate the effectiveness of the FMC’s internal controls over employee credit card transactions and reimbursements.

Our review revealed that the FMC’s Accounting Policy and Procedure Manual, which was last updated December 31, 2001, did not include a written policy for credit card usage and that employees issued credit cards did not consistently submit required support in accordance with the verbally stated policy. The policy manual also did not specify disallowed expenses, including use of funds that was prohibited by the State of Louisiana’s Constitution. This lack of specificity could result in waste and abuse of FMC funds by employees in possession of an FMC credit card.

The recommendations in this report, if adopted, should improve the FMC’s internal controls over credit card usage and expense reimbursements and reduce the opportunity for fraud, waste and abuse.

All responses by the FMC in the body of this report are direct statements from the FMC and have not been modified.

¹ The term credit card will be used throughout this report to include the FMC’s Capital One, Lowes, Home Depot, Office Depot, Sam’s Club and Chevron credit cards and/or business accounts.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to provide recommendations to improve the FMC's Accounting Policy and Procedure Manual regarding credit card transactions and expense reimbursements.

The review covered the period July 1, 2007 – July 31, 2010 and was prepared in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book).

To accomplish the review's objectives, the auditors:

1. Conducted interviews with FMC employees and Board members;
2. Reviewed the FMC's Accounting Policy and Procedure Manual to verify that business expenses were incurred in accordance with the policy;
3. Reviewed controls over credit cards and expense reimbursement requests;
4. Tested credit card activity by tracing a random sample of transactions from the monthly statements to their original support;
5. Tested expense reimbursements by tracing a random sample of checks to employees from the check register to their original support;
6. Reviewed best practices;
7. Reviewed City of New Orleans Policy 116(R) "Credit Card Issuance and Use" and Policy 9(R) "Travel and Business Expenses";²
8. Compared the City's revised Travel and Business Expense Policy³ to the existing FMC policy.

The report included findings and recommendations relating to FMC's Accounting Policy and Procedure Manual. These recommendations were based on City of New Orleans' policies⁴ and best practices.

Computer-processed data was provided and relied on during testing, which detailed information on actual expenditures of the FMC's travel expenses for the period of the report. Although a formal reliability assessment of the computer-processed data was not performed, the auditors determined that hard copy documents reviewed were reasonable and generally agreed with the information contained in the computer-processed data. No errors were found that would preclude us from using the computer-processed data to meet the report's objectives or that would change the conclusions of this report.

² As a result of the OIG report released on August 24, 2010 (www.nolaoig.org) the City's policies 9(R) and 116(R) were revised by the City with an effective date of July 27, 2010 and September 1, 2010, respectively.

³ Ibid.

⁴ Ibid.

II. FINDINGS AND RECOMMENDATIONS

A. CREDIT CARD FINDINGS:

Finding # 1:

Condition: The FMC Accounting Policy and Procedure Manual lacked a written credit card policy.

Recommendation: The FMC should develop a written credit card policy to be included in an updated Accounting Policy and Procedure Manual.⁵ At a minimum the policy should indicate:

- Employees authorized to use the credit cards;
- Allowed and disallowed credit card uses;
- Required receipts and other supporting documentation that should be maintained by cardholders; and
- Officials designated to review and approve each cardholder's reconciled monthly statement and corresponding support prior to payment.

FMC Response: *"The FMC's Accounting Policy and Procedure (attached) has been revised to include a written credit card policy."*⁶

Finding # 2:

Background: Employees with credit cards were verbally instructed that they should turn in all original receipts or invoices to the accounting department for each credit card transaction.

Condition: FMC employees assigned credit cards did not consistently turn in the required supporting documentation for all credit card transactions. Based on a random sample of sixty (60) credit card transactions out of a total population of 1,040 transactions⁷, nineteen (19) of the transactions (32%) lacked supporting documentation, such as an original receipt or invoice.

Recommendation: The FMC should enforce the policy that original receipts and invoices be submitted for all credit card transactions. Failure to provide original receipts should require the employee to pay for the expense. This should be included in the written policy described in Recommendation # 1.

FMC Response: *"In accordance with the revised Accounting Policy and Procedure all cardholders are required to turn in supporting documentation for all credit card charges."*

⁵ The City's Policy 116(R) "Credit Card Issuance and Use" can be used as a reference for the FMC's revised policy.

⁶ It should also be noted that the FMC adopted a separate credit card policy in addition to the policy mentioned above which is included in Section IV.

⁷ The population consisted of all transactions on the three (3) Capital One credit cards for the period July 1, 2007 – July 31, 2010.

OIG Comment: *The FMC partially adopted this recommendation. The revised “Accounting Policy and Procedure Manual requires cardholding employees to turn in supporting documentation for all credit card charges but does not specifically state that employees must reimburse the FMC for any disallowed expenditures.*

Finding # 3:

Background: Employees with credit cards were verbally instructed that they should turn in a written explanation of the business purpose for each credit card transaction.

Condition: FMC employees with company credit cards did not consistently provide the required business purpose for each credit card transaction. Based on a random sample of sixty (60) credit card transactions out of a total population of 1,040 transactions, thirty (30) of the transactions (50%) did not have a written explanation of the business purpose of the expense.

Recommendation: The FMC should enforce the policy that employees provide an explanation of the business purpose of each expense for all credit card transactions. This should be included in the written policy suggested in Recommendation # 1.

FMC Response: *“In accordance with the revised Accounting Policy and Procedure all cardholders are required to record on an expense report the business purpose for all credit card charges.”*

Finding # 4:

Condition: The Accounting Policy and Procedure Manual contained an overly broad definition⁸ of allowable expenses that employees could charge to their credit card or for which they could be reimbursed.

Recommendation: The FMC should include a discussion of allowable business expenses as well as expenses that are specifically disallowed in its Accounting Policy and Procedure Manual.⁹ This policy should be read and signed by all employees and employees with company credit cards should be required to reimburse the FMC for any disallowed expenditures.

FMC Response: *“The Accounting Policy and Procedure Manual have been revised to add the definition of allowable expenses that can be charged by cardholders or reimbursed.”*

OIG Comment: *The FMC partially adopted this recommendation. The revised Accounting Policy and Procedure Manual now states that credit cards can only be used for legitimate business expenses and forbids any charges for personal use. The manual does not discuss allowable or disallowable business expenses and does not require cardholding employees to reimburse the FMC for disallowed expenditures.*

⁸ The Accounting Policy and Procedure Manual stated that employees “write a short explanation of the expense, include the event to be attended, the city where the event will take place and the dates of travel” for meals, travel, entertainment and any other expenses.

⁹ The City’s Policy 9(R) “Travel and Business Expenses” can be used as a reference for the FMC’s revised policy.

Finding # 5:

Background: The monthly credit card statements were often not approved for payment until after the due date and not always approved for the full amount due.

Condition: The FMC often incurred finance and late charges relating to payment of the monthly credit card statements. The auditors examined 100% of the monthly statements for FMC’s six credit card accounts. Significant late fees and/or finance charges were observed on five out of the six credit card accounts for the period tested. See analysis of late fees and finance charges in Table 1.

Table 1: Analysis of Late Fees and Finance Charges for the period July 1, 2007 – July 31, 2010 ¹⁰

Card Description	Total Card Transactions (A)	Total Late Fees & Finance Charges (B)	Total Late Fees & Finance Charges as % of Total Transactions (B)/(A)
Capital One	\$ 88,358	\$ 1,497	1.69%
Chevron	8,050	581	7.22%
Lowe’s	12,937	344	2.66%
Office Depot	28,217	860	3.05%
Sam’s Club	17,053	164	0.96%
Totals	\$ 154,615	\$ 3,446	2.23%

Recommendation: The FMC should address the process by which credit card and business account statements are approved and paid to avoid unnecessary finance and late charges.

FMC Response: *“The Accounting Department has taken steps to assure that all credit card accounts are paid timely.”*¹¹

Finding # 6:

Background: Holiday gift cards purchased on the FMC credit card¹² were purportedly distributed to FMC employees. IRS Guidelines indicate that “Cash or cash equivalent items provided by the employer are never excludable from income. Gift certificates that are redeemable for general merchandise or have a cash value are not *de minimis*¹³ benefits and are taxable.”¹⁴

¹⁰ Table 1 includes only those cards with late fees and/or finance charges. Total transactions for all cards were \$164,035 for the period with total late fees and finance charges as a percentage of transactions of 2.10%.

¹¹ It should also be noted that the FMC adopted a separate credit card policy in addition to the policy mentioned above which is included in its entirety in Section IV.

¹² See Finding # 7.

¹³ Merriam Webster defined this term as lacking significance or importance: so minor as to merit disregard.

¹⁴ “*De Minimis* Fringe Benefits” per IRS.gov: <http://www.irs.gov/govt/fslg/article/0,,id=184791,00.html>. Per these guidelines, “If they are taxable, they should be included in wages on Form W-2 and subject to income tax withholding. If the employees are covered for social security and Medicare, the value of the benefits is subject to withholding for these taxes also.”

Condition: Gift cards purportedly given to employees were not being properly accounted for under IRS guidelines. Sam’s Club and Master Card gift cards distributed to employees as Christmas gifts were not included in wages on Form W-2.

Recommendation: All cash or cash equivalent items provided to employees by the FMC must be included as taxable income to the employee receiving the item.

FMC Response: *“The FMC will not issue gift cards to its employees. In accordance with the revised Accounting Policy and Procedure the FMC is prohibited from issuing gift cards to City of New Orleans employees.”*

Finding # 7:

Background: The Constitution of the State of Louisiana states that “funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.”¹⁵

Condition: During testing of FMC credit card transactions, the auditors noted several large purchases of holiday gift cards for employees (Table 2). The purchase of gift cards for employees violated the Louisiana Constitution’s prohibition on the donation of public funds.

Table 2: Gift Card Purchases for FMC Employees

Description	Purchase Date	Cost of Card	Quantity Purchased	Total Purchase
\$50 MasterCard Gift Card	12/18/08	\$ 54	29	\$ 1,566
\$75 Sam’s Club Gift Card	12/19/09	75	35	2,625
\$50 Sam’s Club Gift Card	12/23/09	50	7	350
Totals			71	\$ 4,541

Recommendation: FMC should discontinue the practice of purchasing gift cards for employees with FMC operating funds. The revised Accounting Policy and Procedure Manual mentioned in Recommendation #1 should include a description of prohibited uses of funds.

FMC Response: *“The FMC will not issue gift cards to its employees. In accordance with the revised Accounting Policy and Procedure the FMC is prohibited from issuing gift cards to City of New Orleans employees.”*

¹⁵ La. Const. Art. VII, §14.

Finding # 8:

Background: The FMC's Accounting Policy and Procedure Manual required that "any checks exceeding \$2,000 require two signatures."

Condition: The FMC circumvented the existing control and allowed expenses to be divided into smaller amounts to eliminate the need for a second signature. The FMC engaged in the practice of paying larger invoices in multiple payments to bypass required authorization procedures for cash disbursements.

During the testing of ten (10) expenditures on the various credit card accounts, the auditors noted that one (1) disbursement for gift cards in the total amount of \$2,796.98 was divided into two payments, thereby making each payment less than \$2,000. The official who initially approved the purchase of the gift cards was the same approving official whose signature was required on each check. Because the purchase was broken into two payments, the invoice was able to be paid without obtaining the required second signature of approval.

Recommendation: The FMC should forbid the practice of splitting payments to circumvent the control of requiring two signatures for purchases in excess of \$2,000. Any violations of this policy should be reported to the board.

FMC Response: *"The Accounting Policy and Procedure Manual have been revised to include language that prohibits the splitting of payment of expenses that exceed \$2,000.00."*

B. EXPENSE REIMBURSEMENT FINDING:

Finding # 9:

Background: The travel policy required that an expense statement be submitted to report all expenses when a travel advance is made. This expense statement should include all original receipts with explanations of the business nature of each expense.

Condition: The special requirements for travel advances described in the Accounting Policy and Procedure Manual were not consistently enforced. During our testing of ten (10) checks to employees for expense reimbursements out of a total population of twenty (20) checks for the period July 1, 2007 – July 31, 2010, we examined one (1) travel advance to an employee for \$750. The Expense Statement submitted by the employee for the travel advance lacked supporting documentation or explanation of the expenses incurred or the business nature of those expenses.

Recommendation: The FMC should enforce the Expense Statement policy requiring that all original receipts are attached to the expense statement and an explanation of the business nature of the expense should be provided with each receipt.

FMC Response: *"All requirements will be enforced in accordance with the Accounting Policy and Procedure Manual."*

III. CONCLUSIONS

The report on the FMC Credit Card and Expense Reimbursement Policy resulted in eight (8) recommendations to strengthen internal controls over credit card transactions and one (1) recommendation to strengthen expense reimbursements. These nine (9) recommendations are intended to improve and clarify the FMC's accounting policies and procedures in order to decrease the opportunity for waste and abuse.

For the period July 1, 2007 – July 31, 2010, there were 1,040 Capital One credit card transactions for a total of \$88,358. Thirty-two percent (32%) of the credit card transactions tested lacked supporting documentation and fifty percent (50%) lacked a proper explanation of the business purpose of the expense.

Auditors also noted that the FMC Accounting Policy and Procedure Manual had not been updated since December 31, 2001, and many policies and procedures needed to be expanded upon and/or clarified. The manual lacked a written policy for credit card usage. Further, the policies included in the manual, such as those for travel advances and authorization of transactions exceeding \$2,000, were being circumvented. Additionally, FMC funds were used to purchase gift cards for employees in violation of the state constitution and the dollar value of the gift cards was not properly included in the employees' taxable income.

As a result of the review, the auditors concluded that controls over credit card usage were not operating effectively and that other accounting policies were not being enforced for the period tested. An updated Accounting Policy and Procedure Manual that includes a written credit card policy as well as proper enforcement of these policies by FMC will help improve internal controls and prevent fraud, waste and abuse.

In the FMC's response to this report, all findings were fully or partially adopted and accepted into the FMC's new Accounting Policy and Procedure Manual and/or its new Credit Card Policy as included in the appendix.

IV. OFFICIAL COMMENTS FROM FRENCH MARKET CORPORATION

City Code Ordinance 2-1120 section (9)(c) "Reporting the results of inspector general findings" provided that a person or entity that was the subject of a report "shall have 30 working days to submit a written explanation or rebuttal of the findings before the report is finalized, and such timely submitted written explanation or rebuttal shall be attached to the finalized report or recommendation."

An Internal Review Copy of this report was distributed to the FMC on April 29, 2011, to provide an opportunity to comment on the report prior to the public release of the Final Report. The FMC's comments were due and received on May 31, 2011. The FMC's comments are included in the body of this report behind each finding and in their entirety behind this Section.



May 26, 2011

Mr. E. R. Quatrevaux
Inspector General
Office of Inspector General
525 St. Charles Avenue
New Orleans, LA 70130

Dear Mr. Quatrevaux:

The following is the French Market Corporation's (FMC) responses to the Inspector General's Report on the French Market Corporation's Credit Card and Expense Reimbursement Policy. Our responses provide action taken for each finding.

Finding # 1: The Accounting Policy and Procedure Manual lacked a written credit card policy.
Response: The FMC's Accounting Policy and Procedure (attached) has been revised to include a written credit card policy.

Finding # 2: Employees assigned credit cards did not consistently turn in the required supporting documentation for credit card transactions.
Response: In accordance with the revised Accounting Policy and Procedure all cardholders are required to turn in supporting documentation for all credit card charges.

Finding # 3: Employees assigned credit cards did not consistently provide the business purpose for credit card transactions.
Response: In accordance with the revised Accounting Policy and Procedure all cardholders are required to record on an expense report the business purpose for all credit card charges.

Finding # 4: The Accounting Policy and Procedure Manual contained an overly broad definition of allowable expenses that employees could charge to their credit card or for which they could be reimbursed.
Response: The Accounting Policy and Procedure Manual have been revised to add the definition of allowable expenses that can be charged by cardholders or reimbursed.

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Finding # 5: The FMC often incurred finance and late charges relating to the payment of the monthly credit card statements.

Response: The Accounting Department has taken steps to assure that all credit card accounts are paid timely.

Finding # 6: Gift cards purportedly given to employees were not properly accounted for under IRS guidelines.

Response: The FMC will not issue gift cards to its employees. In accordance with the revised Accounting Policy and Procedure the FMC is prohibited from issuing gift cards to City of New Orleans employees.

Finding # 7: The FMC's purchase of gift cards for employees violated the state constitution's prohibition of using public funds for donations to individuals.

Response: The FMC will not issue gift cards to its employees. In accordance with the revised Accounting Policy and Procedure the FMC is prohibited from issuing gift cards to City of New Orleans employees.

Finding # 8: The FMC circumvented the existing control that required two signatures on checks exceeding \$2,000.

Response: The Accounting Policy and Procedure Manual have been revised to include language that prohibits the splitting of payment of expenses that exceed \$2,000.00.

Finding # 9: The special requirements for travel advances described in the Accounting Policy and Procedure Manual were not consistently enforced.

Response: All requirements will be enforced in accordance with the Accounting Policy and Procedure Manual.

The FMC Board and Staff are dedicated to assuring that all policy and procedure as complied with. If you have any questions or need additional information, please feel free to contact me at 522-2621.

Sincerely,



Frank A. Pizzolato
Executive Director

FAP:Pph

Attachment: FMC's Accounting Policy and Procedure Manual