



**Instructor**  
Eric Sloan, CPA  
LLA Advisory Services Manager

## Course 205 Expenditures – Best Practices

### Description

This course is designed to provide participants with information regarding best practices and good internal controls over expenditures including credit cards, travel, contracts, and unclaimed property.

### Objectives

To provide specific strategies to enable participants to set up systems of good internal controls in the areas of:

- Payables and disbursements
- Credit, debit and fuel cards
- Travel and expense reimbursement
- Contracting
- Unclaimed Property

### Who Will Benefit

- Elected Officials
- Appointed Officials
- Local Government Employees
- Local Government Auditors


### About the Instructor

Eric Sloan has 20 years of local government experience working for the Louisiana Legislative Auditor (LLA). Prior to coming to the LLA, Eric worked for 16 years in public accounting, and worked 2 years as the Controller of a multi-state company.

Eric currently serves as a Manager in the Advisory Services section of the LLA. Advisory Services focuses on providing guidance and recommendations to local governments for implementing/strengthening internal controls, ensuring compliance with laws, and implementing good business practices. Advisors also consult with local governments that are not fiscally healthy to help them move toward financial stability.

Eric is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants, and a member of the Society of Louisiana Certified Public Accountants. He earned a Bachelor of Science degree in Accounting from Louisiana State University in 1981.

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# Expenditures Best Practices

*Presented by:*  
**Eric Sloan, CPA**  
*Advisory Services Manager*

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*Objective*



To provide participants with  
specific strategies  
for strengthening internal controls  
over expenditures

October 2019 Center for Local Government Excellence 2


# Agenda



Slides	Topics
4 - 17	Non-Payroll Expenditures
18 - 29	Credit Cards/Debit Cards/Fuel Cards
30 - 41	Travel and Travel Expense Reimbursements
42 - 49	Contracts
50 - 51	Unclaimed Property

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# Non-Payroll Expenditures




## Develop and Implement Written Policies and Procedures

- \* Need to be written at an appropriate level of detail to enable employees to clearly understand their job duties/responsibilities
- \* Also aids in the continuity of agency operations

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# Non-Payroll Expenditures




## Segregate Incompatible Duties and Monitor

- \* No one person should have control of all functions/duties of a financial area (start to finish).
- \* The following duties should be separated among different employees:
  1. **Authorization** (e.g., add new vendors, sign checks)
  2. **Custody** (e.g., access to blank checks, can create wire transfers)
  3. **Recordkeeping** (e.g., ability to record invoices in system)
  4. **Reconciliation** (e.g., bank accounts/general ledger)

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# Non-Payroll Expenditures



**If adequate segregation of duties is not possible over expenditures, the chief executive officer should require the unopened bank statements to be delivered directly to him/her.**

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## Non-Payroll Expenditures




**For example, good controls require:**

- \* At least 2 employees to be involved in the purchasing process (initiate purchase request, approve purchase, and make purchase).
- \* At least 2 employees to be involved in the payment process (processing, approving, and mailing payments to vendors).
  - The employee responsible for processing payments should be **prohibited** from adding/modifying vendor files, **unless** another employee is responsible for periodically reviewing changes to vendor files.

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## Non-Payroll Expenditures



**Implement Controls over New Vendors**

1. Review potential new vendors for compliance with ethics laws. (e.g., related parties, former employees are generally prohibited from contracting with agency within 2 years of termination)
2. Management should document its authorization of all new vendors.
3. Before payment is issued to a new vendor, ensure there is a completed IRS Form W-9 (*Request for Taxpayer Identification Number and Certification*) on file for the vendor.

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## Non-Payroll Expenditures

### Monitor Controls over Vendors

1. Require a report to be automatically generated by the system to identify when there are any **additions/deletions/changes made to vendor master files**. Management should review the report, document its authorization, and maintain the report on file.
2. Periodically generate a vendor listing for review to ensure that **only active and approved vendors are included on the listing**.
  - Also, compare vendor addresses and phone numbers to employee addresses and telephone numbers to identify possible ethics issues and/or fraudulent transactions. Any matches should be immediately investigated and resolved.

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## Non-Payroll Expenditures


### Controls over Invoices - Review

\* **Invoices should be reviewed for propriety** (e.g., recalculate the math for accuracy, agrees to terms of contracts) **and be matched-up** with the related approved purchase orders and receiving reports.

The review process should ensure that **invoices are supported by:**

1. Original **itemized receipt** that identifies precisely what was purchased
2. Written documentation of the **business/public purpose**
3. Written documentation of the **individuals participating in meals**
4. Appropriate **management review/approval** (in writing)

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## *Non-Payroll Expenditures*

### Controls over Invoices - Review

- The invoice review process should also ensure compliance with:
  1. **Agency’s purchasing policies** (e.g., approvals)
  2. **Local Government Budget Act** (requires expenditures to be appropriated/budgeted)
  3. **Article VII of Louisiana Constitution** (prohibits donations and gifts)
  4. **Governmental Ethics Laws** (e.g., prohibits “related” party transactions)
  5. **Public Bid Law** (e.g., requires written quotes and advertised bids for certain expenditures)

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## *Non-Payroll Expenditures*


### Controls over Invoices - Monitoring

1. Invoices/payables should be input weekly into the system and an aging schedule should be generated that shows:
  - Vendor names
  - Invoice dates
  - Invoice amounts
  - Brief description of goods/services purchased
2. Management should periodically review the payable listing to ensure that, among other things, vendors are being paid timely.
3. The chief executive should provide the aging schedule to the Board for review at their regular monthly meetings.

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# Non-Payroll Expenditures




## Controls over Payments

1. Prohibit checks from being issued payable to “cash.”
2. Prohibit checks from being signed “in blank.”
3. Prohibit the use of cash to make payments.
4. Maintain the supply of unused/blank manual checks under lock, and restrict access to only authorized personnel (should not have signatory authority).
5. Employees with signatory authority should not have system access to print checks.

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# Non-Payroll Expenditures



## Controls over Payments – Signatures

\* Good controls require the unsigned checks along with the related supporting documentation to be submitted to the chief executive for final review/approval (document in writing) and signature.

**Note:** If dual signatures are required on checks, the same documentation should be provided to the second authorized signer.

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# Non-Payroll Expenditures



## Controls over Payments - Signatures

- \* If the agency uses a check-signing machine to sign checks, good controls require:
  - Only authorized personnel to have access to the key (or combination) and equipment.
  - At least two people to be present when checks are signed to ensure that the number of checks signed (per meter reading) are agreed/reconciled in writing to the number of checks listed on the check register.
- \* Prohibit the use of signature stamps. If there is one, it should be maintained under control of the signer or used only with consent.

# Non-Payroll Expenditures



## Controls over Payments - Distribution

After checks have been signed, good controls require the official responsible for signing checks to either mail the payments or give the signed checks to an employee to mail who is not responsible for processing payments.

## Non-Payroll Expenditures



### Controls over Electronic Payments

\* For electronic payments (e.g., wire transfers, direct deposits), ensure that the following controls, at a minimum, are implemented:

- Restrict access to computers and communications equipment to only authorized personnel.
- Require dual control, including separate passwords, over input and approval/transmission of data. [If segregation is not possible, implement a call-back procedure with financial institution who will call a specified employee when a wire transfer is initiated. The call back should not go to anyone who is able to initiate wire transfers.]
- Maintain a written log of all electronic transactions for reconciliation and audit.

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17

## Credit Cards/Debit Cards/ Fuel Cards



### Develop and Implement Written Policies and Procedures

Should address:

1. Approval requirements to open accounts
2. Authorized users of cards
3. Required approvers of card transactions
4. Allowable uses of different types of cards
5. Prohibited uses of cards (e.g., cash advances, donations, alcohol)
6. Preventing the assessment of finance charges and late fees

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18

## Credit Cards/Debit Cards/ Fuel Cards



### Written Policies and Procedures

#### Should address (cont.):

7. Requiring original itemized receipts that identifies precisely what was purchased, including written documentation of the business/public purpose, and documentation of the individual participating in meals (if applicable)
8. Procedures to follow in the event of lost/stolen cards
9. Procedures for removal of signatory authorization upon employment termination
10. Disciplinary action for noncompliance with agency policy

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19

## Credit Cards/Debit Cards/ Fuel Cards



### Card Account Authorization

1. Governing board should approve all credit card, debit card, and fuel card accounts (document approval in minutes).
2. All accounts should be opened and cards issued in the agency's name using the agency's Tax ID number.

**[Notes:** Cards should only be used if critically necessary. The use of cards can circumvent the agency's standard purchasing processes and established internal controls; therefore, cards present a greater risk of abuse and fraud.]

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20

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards

1. Good controls require the agency to maintain a master list of all credit, debit, and fuel cards in a secure location. The list should be updated as necessary and include the following information:
  - Card issuer name and telephone number
  - Card account name
  - Card account number
  - Card expiration date
  - Card PIN
  - Credit limit amount
  - Person responsible for possession of card

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21

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

2. Take an inventory of all cards periodically and reconcile to the listing to ensure all cards can be accounted for and to ensure the list is complete and accurate.
3. Chief executive should periodically reassess the critical necessity of each card (document in writing).
4. Unnecessary cards/accounts should be closed, and any accounts that require annual fees should be closed.

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22

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

#### 5. Cards should be maintained under lock for checkout:

- The agency should maintain a detailed log for each card to document:
  - Person who checked out the card
  - Business purpose for the card being checked out
  - Person who approved the card to be checked out
  - Dates that the card was checked out and checked back in (log should clearly show who has the card at all times)

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23

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

6. Chief executive should authorize issuance, in writing, of any cards to employees for their regular possession.
7. Before an employee is allowed to check out or possess an agency's charge card, the employee should be required to review and sign a standard agreement with the agency that describes the policies and procedures for card use.
8. Employees should be required to immediately notify management if a card is missing (lost or stolen). Management should notify the chief executive, cancel the card, and consider notifying law enforcement.

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24

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

9. If available through the credit card vendor, purchase prohibitions should be implemented on cards by using merchant category code restrictions.
10. Require all credit and debit card charges to be pre-approved (in writing) in accordance with standard purchasing policies and procedures (e.g., use of purchase orders), including requiring clear documentation of the business purpose for the purchase.
11. Ensure there is evidence that the monthly/combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

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25

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

12. Require employees and officials, without exception, to submit adequate documentation to support all charges made.
13. Receipts should be submitted before the monthly statements arrive and in time to adequately review the charges.
  - Documentation should include the original itemized receipt with documentation of the business/public purpose, person making the purchase, and, if applicable, names of people participating in transaction.
  - For fuel charges, receipts should include odometer reading, number of gallons, price per gallon, and vehicle description.

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26



## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

14. Require department heads to review vendor fuel statements each month for reasonableness, including the:
- (1) Accuracy of odometer readings input
  - (2) Dates and times of purchases (e.g., weekend, after work hours)
  - (3) Number of gallons purchased
  - (4) Fuel type/octane rating purchased (e.g., diesel, premium)
  - (5) Number of miles traveled
  - (6) Miles per gallon information reported on the statements. The disposition of all missing and/or erroneous odometer readings should be documented on the statements.

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27

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

- If any vehicles are fueled more than once per day, the business necessity of the refueling should be documented and retained with the monthly fuel statement.
  - Evidence of review should be documented on fuel statements.
15. For fuel card charges, prepare a monthly summary report by employee/vehicle that includes (1) total gallons of fuel purchased; (2) total miles traveled based on odometer readings; and (3) calculated average number of miles driven per gallon. This monthly report should be presented to and reviewed with the chief executive.

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28

## Credit Cards/Debit Cards/ Fuel Cards



### Controlling and Monitoring Cards (cont.)

16. Require all supporting documentation (e.g., purchase orders, receiving reports, itemized receipts) to be submitted with the credit, debit, and fuel account statements to the chief executive for review and written approval prior to making payment.
17. For charges made by the chief executive, a member of the governing board should be designated to review and approve those purchases (in writing) before payment is made.
18. Any exceptions or noncompliance issues should be immediately investigated, resolved, and documented in writing and retained with the monthly statement.

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29

## Travel and Travel Expense Reimbursements



### Develop and Implement Written Policies and Procedures

In general, travel should be reasonable and done only when necessary and when such travel benefits the agency. Furthermore, travel should be conducted in the most economical means to accomplish the business of the agency.

Policies and procedures should address, at a minimum:

1. **Approvals**
2. **Allowable expenses and supporting documentation**

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30

## Travel and Travel Expense Reimbursements



### Approvals

- \* Travel expenditures should be in accordance with the budget.
- \* Employee travel should be approved in advance by chief executive in writing. This authorization should encompass all travel expenses, including those directly billed and/or charged to the agency's credit card.
- \* Chief executive travel should be approved in advance by board (documented in minutes).
- \* Board member travel should be approved in advance by full board (documented in minutes).

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31

## Travel and Travel Expense Reimbursements



### Approvals

Travel advances should be made in accordance with the agency's policy, be documented on a *Travel Advance Request Form*, and be approved by the chief executive.

- The traveler should sign the *Travel Advance Request Form* acknowledging receipt of the funds which also gives the agency authorization to deduct the amount advanced from the traveler's paycheck if required documentation is not submitted within 30 days of trip return.

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32

## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

\* Topics to be addressed in policies:

- Reimbursement rates for lodging, meals, and mileage. If you reimburse using a per diem, we recommend using either the per diems established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) or the State of Louisiana.
- Airfare: If the lowest priced airfare is not used, the reason should be documented on the expense reimbursement report.
  - Commercial air travel should be reimbursed at the coach/economy class rates unless such rates are not available.

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33

## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

- Rental vehicles should be approved in advance and only upon showing that a rental is the most economical means by which the purpose of the business trip can be accomplished.
  - Reimburse only the cost of a compact model unless (1) non-availability is documented; (2) the vehicle will be used to transport more than two persons; or (3) the cost of a larger vehicle is no more than the rental rate for a compact.
  - Require receipts and documentation of the business purpose.

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34

## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

- Agency vehicles should be used for business travel only. Personal use should be strictly prohibited.
  - Mileage logs should be maintained to record the purpose for the business travel, the destination, and the miles traveled.
- Personally owned vehicles: Employee should document the business purpose, vehicle odometer readings (beginning and ending), and number of business miles traveled. Claims for mileage reimbursement should be paid in accordance with the allowance authorized in the policy.

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35

## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

- Driver's license and insurance:
  - Management should periodically verify that all employees who operate agency vehicles and conduct public business in their personal vehicles have a valid driver's license and meet the state's minimum liability insurance requirements.

Employees that do not have the above should not be allowed to conduct public business in an agency-owned vehicle or in their personal vehicle.

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36



## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

- Business meals:
  - Meals reimbursed on a per diem basis should be in accordance with policy and be supported by documentation of the business/public purpose.
  - Meals reimbursed on an actual cost basis should be supported by a original itemized receipt, documentation of the business/public purpose, and the names of all individuals participating (if applicable).

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37

## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

- Lodging:
  - If reimbursed using actual costs, the reimbursement must be supported by an original itemized receipt.
  - *Business lodging:* Reasonable lodging rates should be established and management should document its approval of any lodging rates reimbursed in excess of the rate(s) in policy.
  - *Conference lodging:* Lodging costs incurred at a conference hotel should be reimbursed at the cost of a standard room with single occupancy.

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38



## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

- Expense report:

A standardized report should be created and used by all agency officials and employees to report their travel expenses and request reimbursement. The report should include:

- (1) time and date of departure;
- (2) time and date of return;
- (3) destination;
- (4) travel related costs paid direct by the agency; and
- (5) travel costs paid out-of-pocket.

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39

## Travel and Travel Expense Reimbursements



### Allowable Expenses and Supporting Documentation

- Expense report:

- All documentation supporting the expenditures should be attached to the report (e.g., original itemized receipts, business/public purpose, persons participating, registration form, and brochure).
- All claims for reimbursement should be reduced for any funds advanced to the traveler.
- Expense reports must be reviewed and approved, in writing, by someone other than the person receiving reimbursement.

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40

# Travel and Travel Expense Reimbursements



## Allowable Expenses and Supporting Documentation

- Expense report:
  - An employee's expense report should be signed and be reviewed and approved, in writing, by appropriate supervisor and chief executive.
  - The chief executive's expense report and related documentation should be reviewed and approved, in writing, by a designated board member.
  - Expense reports must be carefully reviewed to ensure that the requests for reimbursement are proper and do not include purchases made by the agency (e.g., on agency credit card).


# Contracts



## Develop and Implement Written Policies and Procedures

In addition to the Public Bid Law requirements, policies and procedures should address the following:

1. **Service arrangements** (professional and otherwise)
2. **Contract document**
3. **Contract review and approval**
4. **Contract monitoring**



# Contracts

## Service Arrangements

Although the Public Bid Law does not require services to be bid, a competitive atmosphere should be established by management to help ensure that fees paid for services are cost-effective. Good business practices require that written contracts be executed for services performed by a third-party.

- \* The traditional public bid process may be used. We suggest that dollar thresholds in the Public Bid Law for purchases of materials and supplies be used when contracting for services. As such, at least three telephone or facsimile quotations should be obtained for services costing between \$10,000 and \$30,000, and formal bids should be solicited for services exceeding \$30,000.

October 2019      Center for Local Government Excellence      43



# Contracts

## Contract Document

Agreements for the acquisition of goods and/or services from third parties should be evidenced in the form of a written contract to lessen the risk of misunderstandings.

The contract document should be written in the best interests of the agency and clearly provide the terms and conditions, including:

- Specific goods/services to be performed and costs
- Timing of service delivery
- Period covered by the contract

October 2019      Center for Local Government Excellence      44

# Contracts




## Contract Document (cont.)

- Clearly defined performance standards and measurable outcomes
- How vendor performance will be evaluated/monitored
- If and how the contract may be amended or terminated
- Consequences for failure to meet contract requirements

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# Contracts



## Contract Review and Approval

- \* The agency's legal advisor should review and approve (in writing) all contracts prior to execution to ensure that the terms and conditions are in the best interest of the agency and the contract complies with all applicable laws (e.g., Public Bid Law and Code of Ethics).
- \* If board approval is required by policy or law (e.g., Lawrason Act, Home Rule Charter), it should be documented in minutes.
- \* All contracts should be signed by the chief executive contingent on the governing board appropriating monies in the budget.
- \* Any amendments to the contract should be contemplated or provided for under the original contract terms.

October 2019 Center for Local Government Excellence 46




# Contracts

## Contract Monitoring

Management should maintain a master list of all active contracts that includes:

1. Vendor's name and contact information
2. Starting date of the contract
3. Ending date of the contract
4. Type of services to be received
5. Cost of the services
6. Employee responsible for monitoring the contract terms and conditions

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# Contracts

## Contract Monitoring (cont.)

- \* Contract documents should be maintained on file in a centralized location at the agency's office.
- \* A formal review of all contracts should be conducted on a periodic basis throughout the life of each contract to ensure that services received comply with the terms and conditions of the contracts. As part of this process, management should consider developing a checklist for each contract containing the terms and conditions. Staff could then use this checklist to review the contracts and document their review. The checklist should be in the contract file.
- \* The status of contracts should be reported to the governing board.

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## Contracts



### Contract Monitoring (cont.)

The monitoring process should also include:

- \* Assigning a contract manager with the authority and skills/training to monitor the contract and related project
- \* Tracking budgets and comparing invoices and charges to contract terms and conditions for agreement
- \* Ensuring deliverables are received on time and documenting the acceptance or rejection of deliverables
- \* Withholding payments to vendors until deliverables are received
- \* Ensuring documentation is maintained

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49

## Unclaimed Property



State law (La. R.S. 9:151 et seq.) provides that particular property (e.g., check, credit balance/refund) is presumed abandoned if it goes unclaimed by the owner for a set period of time.

The unclaimed money is to be reported and transferred to the State Treasurer's Office.

- \* For example, a check for the payment of wages that has not cleared the bank is presumed to be abandoned one year after the compensation became payable.

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50



## *Unclaimed Property*



We advise the agency to:

- Investigate all “old” outstanding checks to determine if the payments meet the criteria of unclaimed property.
- In consultation/coordination with the agency’s legal counsel, remit the applicable unclaimed money along with the required information to the State Treasurer.
- Notify the bank(s), in writing, that the money owed on these checks has been remitted to the State Treasurer (as unclaimed property), and that such items should no longer be honored.
- Require staff in the future to periodically follow-up with vendors/payees to ensure that checks are deposited in a timely manner or other appropriate action is taken (e.g., void).

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51

## Expenditures - Best Practices




Questions and Comments?

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52

*Contact Information*



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October 2019      Center for Local Government Excellence      53