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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Janon Chin
for EXECUTIVE SECRETARY

January 17, 1996

To: Board of Directors (Executive Committee--Action)
(Special Audit Committee--Action)

From: Auditor *Michael W. Handberg*

SUBJECT: Proposed Change in Scope and Frequency of Audits of Director and Department Heads Expense Claims and Related Administrative Code Changes

RECOMMENDATION(S)

It is recommended that the Administrative Code be amended to eliminate the existing requirement that all expense claims submitted by directors and department heads be audited by the Auditor's department, and, furthermore, that several Administrative Code Sections pertaining to expense claims preparation, approval, processing, and audit be amended and renumbered to read as shown in Attachment A to this letter.

DETAILED REPORT

Pursuant to Administrative Code Section 6329(a), the Audit Department is currently required to audit 100 percent of the expense reports filed by Metropolitan directors and department heads. This work is generally conducted monthly and has historically averaged about 20 hours of staff effort per month (about 240 hours per year). In recent years, exceptions identified during audits of directors' and department heads' expense claims have been minimal. Usually such exceptions have pertained to violations of the District expense claim regulations involving the timeliness of filings or missing receipts documentation for reported expenses. Reports on these audit results have been provided in writing semiannually to the Chair of the Special Audit Committee for information purposes.

In addition to the mandated audits of directors' and department heads' expense claims, the Audit Department also audits expense reports filed by other District employees on a test basis each calendar quarter. The testing of employee expense reports currently focuses on reports involving large dollar expenditures, as well as a random selection of other reports processed during the quarterly period. Exceptions, if any, noted during this work are communicated to the claimants and their respective supervisors, if necessary, for resolution.

During October and November 1995, the Audit Department, in conjunction with a Special Workgroup of the Special Audit Committee, and in consideration of input by management staff, developed modifications to the Audit Work Plan for fiscal 1995-96. These changes were

enumerated in the Auditor's letter to the Special Audit Committee, dated November 28, 1995, and were further discussed at the committee's meeting on December 5. Among the various changes outlined in the revised Audit Work Plan was a proposal to reduce the amount of time currently spent auditing all expense reports submitted by directors and department heads as currently required by Administrative Code Section 6329(a). In the interest of enhancing Audit Department effectiveness by allocating available staffing to higher priority work, audit management proposed eliminating the requirement that 100 percent of directors' and department heads' expense claims be audited. Instead, these claims would be subject to audit scrutiny on a selected basis each quarter in the same manner that the Audit Department conducts audits of employees' expense claims. In order to implement this change, the language of Administrative Code Section 6329(a) would need to be modified.

While the Special Audit Committee Workgroup was supportive of the proposed change in audit scope and frequency pertaining to director and department head expense claims, some directors in attendance on December 5 were concerned about the impacts of such a change. One director felt that the change might be perceived negatively by the public due to the nature of the directors' and department heads' duties and in view of their respective business activities which require the expenditure of District funds. However, the expense reports of directors, department heads, and other employees are subject to outside scrutiny as public records regardless of whether or not such claims are audited.

Since the Special Audit Committee lacked a quorum at its December 5 meeting, Chair Frahm requested that this matter be outlined in the form of a report and recommendation which the committee could discuss at its next meeting. This letter contains the recommendation to eliminate the existing requirement that all director and department head expense claims be examined by the Audit Department. In addition, the Administrative Code language contained in several relevant sections beginning with Section 6329 has been rewritten or renumbered to conform to current or proposed practices as shown by insert and strikeover at Attachment B.

Attachments

LETTER OF AUDITOR, DATED JANUARY 17, 1996
ATTACHMENT A

§ 6329. Funds.

(a) Employees on travel status are expected to provide themselves with sufficient funds to cover all out-of-pocket expenses, which will be reimbursed by the District if appropriate.

(b) If necessary, funds will be advanced to employees to be on travel status on a temporary basis upon submission of Form 25-22, Authorization for Temporary Cash Advance, approved by a department or division head. The original of the authorization is to be forwarded to the Controller.

(c) Claims for minor local travel expenses aggregating not more than \$100 per individual employee may be reimbursed from permanent cash advances held by local supervisors, or from petty cash by the Treasurer. The claim shall include all the information required to substantiate a claim on the expense account form. The Treasurer may also provide temporary travel advances and replenishment of permanent advance accounts in amounts up to \$150.

§ 6330. Lobbying.

Directors or employees incurring expenses on behalf of Metropolitan to influence state legislative or administrative action shall separate such items on their expense account from other expenses and identify the action, the purpose of the expenditures, the name of the beneficiary of the expenditure, if other than the employee or payee, and the state agency, if any, and name of official involved and shall assign expenses incurred to the appropriate chart of accounts flexfields for lobbying. The General Counsel shall provide specific guidance to directors and employees concerning the reporting of lobbying expenses.

§ 6331. Preparation, Approval and Processing of Claims.

(a) Expense reports shall be prepared and approved using a standard District form for such purpose.

(b) Expense accounts shall be prepared and submitted by directors and employees under the following circumstances in accordance with the schedules outlined herein:

(1) Directors and employees who incur expenses on behalf of the District, or who travel on or engage in District business which requires the expenditure of funds on their behalf, shall prepare an expense claim form to document the purposes and costs of such activities, even if no reimbursement is being requested. Notwithstanding the foregoing, no expense report need be prepared by a director or employee for a function and/or meals sponsored by the District other than for personal expenses charged to the District which must be reimbursed to the District, or for travel or miscellaneous expenses incident thereto which the directors or employee paid and which are reimbursable to

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said director or employee. As used herein, the term "District sponsored" includes, but is not limited to, meals provided at District facilities, tours for or sponsored by directors, off-site Board workshops, and such other events as may be designated in advance by the Chair of the Board or the General Manager.

(2) Directors' expense claims shall be submitted to the Executive Secretary's office no later than the end of the month following the month in which the director incurred the expenses or participated in an activity for which District funds were utilized on the director's behalf.

(3) Employees' expense claims, approved in accordance with the provisions of this section, shall be submitted to the Finance Division no later than the end of the month following the month in which the employee incurred the expenses or participated in an activity for which District funds were utilized on the employee's behalf.

(4) In no event shall the District process claims by a director or employee for any expenses that he or she incurs on the District's behalf if the claim for reimbursement of such expenses is not submitted within 90 days after the expenses were incurred. Extensions of time may be granted by the Department Head in the case of employees, or by the Chair of the Board in the case of directors when the circumstances causing the delinquent filing are exceptional.

(5) Directors and employees who fail to provide a proper and timely accounting of any of their activities which have utilized District funds may be subject to recognition of taxable income on such amounts expended by the District on their behalf in accordance with applicable tax regulations.

(c) The expense reports of all directors shall be reviewed and approved by the Executive Secretary. Department Heads' expense reports shall be verified as accurate by their respective executive secretaries. The expense reports of assistant department heads and division managers shall be approved by their department heads. All other employee expense reports shall be approved by the employees' authorizing supervisors up through the division manager level, as applicable.

(d) All approved expense reports shall be submitted to the Controller's Branch of the Finance Division for review, processing and, if appropriate, reimbursement of amounts due the claimants. Questions, if any, on directors' claims shall be referred back to the Executive Secretary for resolution. Questions pertaining to employees' claims shall be referred back to the employees or their supervisors, as warranted. Unresolved disputes as to claims submitted by employees shall be forwarded by the Finance Division to the General Manager, who after conference with the employee may reduce or disallow any claim and the employee shall reimburse the District.

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§ 6332. Audit.

(a) All expense reports submitted by directors, department heads other than the Auditor, and all other employees are subject to audit by the Auditor's office after they have been processed. The Auditor's expense reports shall be subject to audit by the Chief Financial Officer.

(b) The Auditor, or the Chief Financial Officer with regard to any such claim of the Auditor, shall refer unusual or questionable claims of directors or Department Heads to the Chair of the Special Audit Committee for review and discussion with the claimant if necessary, except that the Auditor shall refer any such claim made by the Chair of the Special Audit Committee to the Chair of the Board of Directors for review and discussion with the claimant if necessary. If questions regarding the claim cannot be resolved with the claimant, the claim shall be referred to the Special Audit Committee and the claimant notified. The Special Audit Committee, after conference with the claimant, may reduce or disallow any claim and the claimant shall reimburse the District.

(c) Questionable claims of assistant department heads or division managers shall be referred by the Auditor to the General Manager for resolution. Questionable claims of other employees shall be referred to the appropriate level of management or supervision for resolution. The General Manager, or his designee, in consultation with the General Counsel's office, shall have the authority to make final determinations on audit issues involving the expense reports of all employees below the level of department head.

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~~§ 6329. Approvals.~~

~~———— (a) Directors' and Department Heads' claims shall be submitted to the Finance Division for review and, if in order, reimbursement shall be made. Such claims shall then be forwarded to the Auditor for audit, except for the Auditor's claims which shall be forwarded to the Chief Financial Officer for audit. The Auditor, or the Chief Financial Officer with regard to any such claim of the Auditor, shall refer unusual or questionable claims of directors or Department Heads to the Chair of the Special Audit Committee for review and discussion with the claimant if necessary, except that the Auditor shall refer any such claim made by the Chair of the Special Audit Committee to the Chair of the Board of Directors for review and discussion with the claimant if necessary. If questions regarding the claim cannot be resolved with the claimant, the claim shall be referred to the Special Audit Committee and the claimant notified. The Special Audit Committee, after conference with the claimant, may reduce or disallow any claim and the claimant shall reimburse the District. Disputes as to claims submitted by employees shall be forwarded by the Finance Division to the General Manager, who after conference with the employee may reduce or disallow any claim and the employee shall reimburse the District.~~

~~———— (b) Claims by assistant department and division heads shall be approved by the Department Head. Other claims must be approved by the authorizing supervisor and the division head.~~

~~———— (c) Expense accounts shall be prepared and submitted by directors and employees under the following circumstances in accordance with the schedules outlined herein:~~

~~———— (1) Directors and employees who incur expenses on behalf of the District, or who travel on or engage in District business which requires the expenditure of funds on their behalf, shall prepare an expense claim form to document the purposes and costs of such activities, even if no reimbursement is being requested. Notwithstanding the foregoing, no expense report need be prepared by a director or employee for a function and/or meals sponsored by the District other than for personal expenses charged to the District which must be reimbursed to the District, or for travel or miscellaneous expenses incident thereto which the director or employee paid and which are reimbursable to said director or employee. As used herein, the term "District sponsored" includes, but is not limited to, meals provided at District facilities, tours for or sponsored by directors, off-site Board workshops, and such other events as may be designated in advance by the Chair of the Board or the General Manager.~~

~~———— (2) Directors' expense claims shall be submitted to the Executive Secretary's office no later than the end of the month following the month in which the Director incurred the expenses or participated in an activity for which District funds were utilized on the Director's behalf.~~

~~———— (3) Employees' expense claims, approved in accordance with the requirements of the General Manager, shall be submitted to the Finance Division no later than the end of the~~

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~~month following the month in which the employee incurred the expenses or participated in an activity for which District funds were utilized on the employee's behalf.~~

~~(4) In no event shall the District process claims by a director or employee for any expenses that he or she incurs on the District's behalf if the claim for reimbursement of such expenses is not submitted within 90 days after the expenses were incurred. Extensions of time may be granted by the Department Head in the case of employees, or by the Chair of the Board in the case of directors when the circumstances causing the delinquent filing are exceptional.~~

~~(5) Directors and employees who fail to provide a proper and timely accounting of any of their activities which have utilized District may be subject to recognition of taxable income on such amounts expended by the District on their behalf in accordance with applicable tax regulations.~~

§ 633029. Funds.

(a) Employees on travel status are expected to provide themselves with sufficient funds to cover all out-of-pocket expenses, which will be reimbursed by the District if appropriate.

(b) If necessary, funds will be advanced to employees to be on travel status on a temporary basis upon submission of Form 25-22, Authorization for Temporary Cash Advance, approved by a department or division head. The original of the authorization is to be forwarded to the Controller.

(c) Claims for minor local travel expenses aggregating not more than \$100 per individual employee may be reimbursed from permanent cash advances held by local supervisors, or from petty cash by the Treasurer. The claim shall include all the information required to substantiate a claim on the expense account form. The Treasurer may also provide temporary travel advances and replenishment of permanent advance accounts in amounts up to \$150.

§ 6331. Claims.

~~(a) Claims for reimbursement shall be submitted on a form approved by the General Manager.~~

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~~_____ (b) Claims for minor local travel expenses aggregating not more than \$100 per individual employee may be reimbursed from permanent cash advances held by local supervisors, or from petty cash by the Treasurer. The claim shall include all the information required to substantiate a claim on the expense account form. The Treasurer may also provide temporary travel advances and replenishment of permanent advance accounts in amounts up to \$150.~~

§ 63320. Lobbying.

~~An~~ Directors or employees incurring expenses when on behalf of Metropolitan to influencing state legislative or administrative action in the course of employee's employment shall separate such items on employee's ~~their~~ expense account from other expenses and identify the action, the purpose of the expenditures, the name of the beneficiary of the expenditure, if other than the employee or payee, and the state agency, if any, and name of official involved and shall assign expenses incurred to the appropriate chart of accounts flexfields for lobbying work order. The General Counsel shall provide specific guidance to directors and employees concerning the reporting of lobbying expenses.

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(3) Employees' expense claims, approved in accordance with the provisions of this section, shall be submitted to the Finance Division no later than the end of the month following the month in which the employee incurred the expenses or participated in an activity for which District funds were utilized on the employee's behalf.

(4) In no event shall the District process claims by a director or employee for any expenses that he or she incurs on the District's behalf if the claim for reimbursement of such expenses is not submitted within 90 days after the expenses were incurred. Extensions of time may be granted by the Department Head in the case of employees, or by the Chair of the Board in the case of directors when the circumstances causing the delinquent filing are exceptional.

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(c) The expense reports of all directors shall be reviewed and approved by the Executive Secretary. Department Heads' expense reports shall be verified as accurate by their respective executive secretaries. The expense reports of assistant department heads and division managers shall be approved by their department heads. All other employee expense reports shall be approved by the employees' authorizing supervisors up through the division manager level, as applicable.

(d) All approved expense reports shall be submitted to the Controller's Branch of the Finance Division for review, processing and, if appropriate, reimbursement of amounts due the claimants. Questions, if any, on directors' claims shall be referred back to the Executive Secretary for resolution. Questions pertaining to employees' claims shall be referred back to the employees or their supervisors, as warranted. Unresolved disputes as to claims submitted by employees shall be forwarded by the Finance Division to the General Manager, who after conference with the employee may reduce or disallow any claim and the employee shall reimburse the District.

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