



Audit Department Report for July 2014

Summary

Three reports were issued during the month:

- **Director and Employee Expense Reports Audit Report**
- **Weymouth Oxidation Retrofit – Ozonation Facilities Construction 104459 Audit Report**
- **Minor Capital Program for Projects Less Than \$250,000 Follow-up Review**

Discussion Section

This report highlights the significant activities of the Audit Department during July 2014. In addition to presenting background information and opinions expressed in the audit reports, a discussion of findings noted during the examination are also provided.

Director and Employee Expense Reports Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over the Director and Employee Expense Reports, as of March 31, 2014. Our review consisted of evaluating the adequacy of controls over expense reporting and reimbursement processing. We tested expense claims for propriety and compliance with established policies and procedures, and analyzed expense trends to identify unusual patterns or transactions warranting further follow-up.

Metropolitan's Administrative Code Section 6320: Expense Account Regulations Policy and Travel Guide establish travel guidelines, expense reporting procedures, and guidelines for preparing and submitting expense reports. Directors and employees incurring travel or operating expenses on behalf of Metropolitan, prepare expense reports through the Travel Expense Reporter (TER) system. The Accounts Payable Team, under the Controller Section in the Office of the Chief Financial Officer, administers and records TERs and issues reimbursements.

Director and employee expenses totaling \$3.3 million were approved and processed through the TER system during the 13 months ending March 31, 2014. This amount is a 7 percent increase from the previous year, resulting from 143 director TERs totaling \$147,400, and 5,555 employee TERs totaling \$3.1 million. Expenses primarily consisted of per diem allowances, airfare and lodging reimbursements, and tuition reimbursements.

Opinion

In our opinion, the accounting and administrative procedures over Director and Employee Expense Reports include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective controls from the period March 1, 2013 through March 31, 2014. This 13-month period ending March 31, 2014 coincided with the Director and Employee Expense Report issued on June 26, 2013.

Comments and Recommendations

LATE OR UNFILED TRAVEL EXPENSE REPORTS AND RECONCILIATION OF PREPAID EXPENSES

Administrative Code Section 6331(b)(2) states Director's expense claims shall be submitted to the Board 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. Directors' expense claims that are solely for reimbursement of mileage expenses for use of personal automobiles on District business shall be submitted to the Board Executive Secretary's office no later than the end of the month following the calendar quarter in which the director incurred the expenses.

Administrative Code Section 6331(b)(3) states Employees' expense claims approved in accordance with the provisions of this section, shall be submitted to the Office of the Chief Financial Officer 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 employee's behalf.

We reviewed 30,631 expense line items on 143 director TERs and 5,555 employee TERs for timely submission from March 1, 2013 through March 31, 2014:

1. Director Expense Reports: 83 TERs totaling \$58,854 were submitted beyond the 60-day standard:

Days Incurred	Expense Items	TERs	Expenses Claimed
61 - 90	284	49	\$27,299
91 - 180	246	25	\$26,300
181 - 365	46	9	\$5,255
Total	576	83	\$58,854
Period Total	1,690	143	\$147,392

2. Employee Expense Reports: 314 TERs totaling \$156,631 were submitted beyond the 60-day standard:

Days Incurred	Expense Items	TERs	Expenses Claimed
61 - 90	1,058	230	\$95,701
91 - 180	454	76	\$60,253
181 - 365	10	8	\$676
Total	1,522	314	\$156,631
Period Total	28,941	5,555	\$3,125,536

We also reviewed 683 expense line items for expenses totaling \$179,500 prepaid by Metropolitan and incurred by directors and employees, as of March 31, 2014 for which no TERs were filed. These items were prepaid through check payments, or Metropolitan issued credit cards. Our analysis revealed:

3. Outstanding Prepaid Expenses: 13 directors and 22 employees have not filed expense reports within the 60-day standard for prepaid expenses totaling \$52,943 (\$3,982 for directors and \$48,961 for employees):

Director Expense Reports:

Days Incurred	Expense Items	Expenses Claimed
61 - 90	3	\$438
91 - 180	4	\$1,178
181 - 360	12	\$1,519
361 - 1,000	10	\$845
Total	29	\$3,982

Employee Expense Reports:

Days Incurred	Expense Items	Expenses Claimed
61 - 90	24	\$10,674
91 - 180	58	\$12,522
181 - 360	30	\$9,662
361 - 1,000	20	\$15,685
Over 1,000	8	\$416
Total	140	\$48,961

4. Reconciliation of Prepaid Expenses: We noted that 165 expense items totaling \$36,790 were submitted on TERs, and prepaid through Metropolitan issued credit cards had not been reconciled to the monthly credit card statements by the Accounts Payable Team. These expenses were incurred from March 2013 through March 2014.

We recommend management emphasize the importance of submitting TERs within the 60-day guidelines, and conduct periodic reviews to ensure compliance. We also recommend the Accounts Payables Team in coordination with Section Managers, Unit Managers, and the Board Executive Secretary follow up on outstanding unreconciled prepaid expenses.

REVIEW AND APPROVAL

Review and approval controls serve to protect against unauthorized, inaccurate, or duplicate transactions; identify items that require correction; and ensure that follow-up procedures exist for exceptions. For TERs, authorized personnel review supporting documentation details for compliance to policies and procedures, check documentation for accuracy and completeness, and examine expenses for propriety. Our review revealed:

1. Three employees submitted duplicate TERs resulting in a \$334 over-reimbursement. The Accounts Payable Team has contacted the employees seeking reimbursement. Two employees have reimbursed Metropolitan \$92 each, and one employee has agreed to repay the remaining \$150 amount.
2. Two of nine TERs seeking mileage reimbursement over 200 miles one-way, lacked adequate cost justification for personal vehicle use in lieu of air transportation. This is in contrast to Administrative Code Section 6326(d) which states that trips which require travel in excess of 200 miles one-way shall be made by commercial airline unless the circumstances dictate otherwise.

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3. We could not locate supporting documentation for two TERs totaling \$360. This is in contrast to Travel Guide Policies, which requires receipts for expenses over \$25.

We recommend management remind reviewers of the importance of ensuring validity, accuracy, and completeness of TERs. We also recommend the Accounts Payable Team periodically review the Duplicate Transaction Report to identify duplicate payments.

Weymouth Oxidation Retrofit – Ozonization Facilities Construction 104459 Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over the F.E. Weymouth Treatment Plant (Weymouth plant), Oxidation Retrofit Program (ORP), Ozonization Facilities Construction 104459 (Program), as of April 30, 2014. Our review consisted of evaluating administration and reporting practices, and reviewing project authorizations and closeout processes. Furthermore, we evaluated the validity and accuracy of invoice payments for assurance that amounts billed were properly calculated, and adequately supported. Finally, we reviewed the Actual versus Budgeted costs, and compared these totals to appropriated amounts and management reports.

Weymouth plant is the last of five Metropolitan treatment plants to be retrofitted, as part of the ORP Program. This Program is intended to allow Metropolitan to meet drinking water standards for disinfection of by-products, and reduction of taste and odor incidents.

In June 2012, the Board awarded Archer Western Contractors, LLC (Archer) \$95.5 million to construct the ozone generation building, ozone off-gas destruct system, liquid oxygen storage facility, and the Hydrogen Peroxide Storage and Feed facility. The agreement called for Archer to construct two ozone contactors that provided ozone disinfection for an initial capacity of 260 million gallons per day (mgd). In addition, the agreement included the construction of two additional bypass contactors needed for Stage II of the Program to increase the ozone treatment to full capacity at Weymouth plant.

In December 2013, the Board authorized an additional \$23.2 million to Archer for Program construction of Stage II, increasing ozone treatment capacity from 260 mgd to 520 mgd. This increase in capacity accommodates expected future Weymouth plant treated water demands, eliminates blending restrictions associated with Metropolitan's source water, and provides flexibility within the Central Pool when pre-stressed concrete cylinder pipe feeders are removed from service for rehabilitation.

As of April 30, 2014, Program expenses totaled \$134.3 million and the project was over 50 percent completed with total costs estimated at \$267 million. In addition, \$60.2 million of these expenditures were classified as Ozonization Facilities Construction expenses of which Archer was paid \$50.3 million.

Opinion

In our opinion, the accounting and administrative procedures over the Program include those practices usually necessary to provide for a satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective controls for the period of April 1, 2012 through April 30, 2014.

Comments and Recommendations

There were no material findings to report.

Minor Capital Program for Projects Less Than \$250,000 Follow-up Review

Background

We have completed a follow-up review of the Minor Capital Program for Projects Costing Less Than \$250,000 (Minor Capital Program) of audit and recommendations issued on April 23, 2012. This review is required by Audit Department Policies and Procedures, which prescribes a follow-up review on audits receiving a less than satisfactory audit opinion.

We reviewed management's Action Plan implementations to ascertain whether actions taken adequately mitigate issues identified, and lowered associated risks to a reasonable level. Our testing revealed that Minor Capital Program management has taken the necessary steps to address issues noted in the audit report. We noted that the Minor Capital Program manager has worked with staff to complete resolution of Minor Capital projects with noted discrepancies, developed procedures to streamline project management, and improved reporting on the Minor Capital Program status.

Our testing also revealed that Minor Capital Program management has established specific responsibilities and administrative guidelines to streamline approval process, developed procedures to ensure compliance with operating policies and Administrative Code, and developed guidelines to reflect current Minor Capital Program processes related to the initiation, managing, reporting, and closeout procedures.
