



Internal Audit Report for August 2015

Summary

Two reports were issued during the month:

- **Director and Employee Expense Reporting Audit Report**
- **Inspection Trip Program Audit Report**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during August 2015. In addition to presenting background information and the opinions expressed in the audit reports, a discussion of findings noted during the examination is also provided.

Director and Employee Expense Reporting 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 May 31, 2015. Our review consisted of evaluating the adequacy of controls over expense reporting and reimbursement processing. We also tested expense claims for propriety and compliance with established policies and procedures. Finally, we 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 (AP) 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 \$3.7 million were approved and processed through the TER system during the 14 months ending May 31, 2015. This amount resulted from 137 director TER receipts totaling \$175,300, and 6,196 employee TER receipts totaling \$3.5 million. Expenses primarily consisted of tuition reimbursements (24.2 percent), per diem allowances (18.4 percent), airfare (18 percent), lodging (12.2 percent), and business mileage claims (7.5 percent).

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 April 1, 2014 through May 31, 2015.

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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 31,618 expense line items on 137 director TERs and 6,196 employee TERs for timely submission from April 1, 2014 through May 31, 2014:

1. Director Expense Reports: 77 TERs totaling \$51,380 were submitted beyond the 60-day standard:

Days Incurred	Expense Items	TERs	Expenses Claimed
61 - 90	286	47	\$29,200
91 - 180	147	21	\$13,668
181 - 365	50	9	\$8,512
Total	483	77	\$51,380
Period Total	1,690	137	\$175,342

2. Employee Expense Reports: 383 TERs totaling \$198,523 were submitted beyond the 60-day standard:

Days Incurred	Expense Items	TERs	Expenses Claimed
61 - 90	1,525	285	\$126,621
91 - 180	484	83	\$57,713
181 - 365	97	14	\$14,115
Over 365	1	1	\$75
Total	2,107	383	\$198,523
Period Total	29,859	6,196	\$3,528,210

We also reviewed 684 expense line items for expenses totaling \$183,444 prepaid by Metropolitan and incurred by directors and employees, as of March 31, 2015 for which no TERs were filed. These items were prepaid through check payments, or Metropolitan-issued credit cards. Our analysis revealed:

1. Outstanding Prepaid Expenses: 20 directors and 78 employees have not filed expense reports within the 60-day standard for prepaid expenses totaling \$139,019 (\$9,859 for directors and \$129,160 for employees).

Director Expense Reports:

Days Incurred	Expense Items	Expenses Claimed
61 - 90	12	\$2,612
91 - 180	11	\$2,364
181 - 360	10	\$2,528
366 – 1,000	21	\$2,355
Total	54	\$9,859

Employee Expense Reports:

Days Incurred	Expense Items	Expenses Claimed
61 - 90	32	\$4,210
91 - 180	77	\$16,456
181 - 365	195	\$45,954
366 – 1,000	157	\$62,046
Over 1,000	12	\$494
Total	473	\$129,160

2. Reconciliation of Prepaid Expenses: We noted that 612 expense items totaling \$137,222 were submitted on TERs, and prepaid through Metropolitan issued credit cards were not reconciled to the monthly credit card statements by the AP Team. These expenses were incurred from April 2014 through May 2015.

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 AP 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.

We reviewed 20 director TER receipts totaling \$54,394 and 50 employee TER receipts totaling \$71,950 submitted from April 1, 2014 through May 31, 2015, for compliance with policies and procedures. Our review revealed:

1. Director Expense Reports:

- a. Two directors 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.
- b. Eleven directors were reimbursed for meals exceeding the \$50 daily Current General Guideline for meal costs. Furthermore, 11 meal charge slips excluded the itemized bill.
- c. We could not locate approved Authorization for Travel Outside Metropolitan's Service Area forms for 20 domestic trips and two out-of-state trips. This is in contrast to the Travel Guide Policies requiring approval for domestic trips from executive management and all other travel approval from the Chairman of the Board.
- d. We were unable to recalculate and validate personal vehicle mileage claimed for reimbursement for 11 director TERs, as a result of lacking information on start-and-end points.

2. Employee Expense Reports:

- a. Three employees submitted duplicate TERs resulting in a \$670 over-reimbursement. The AP Team has collected these funds.
- b. Five employees were reimbursed for meal charge slips which excluded the meal itemization. This is in contrast to Travel Guide Policies which requires submission of itemized receipt.
- c. One employee was reimbursed a business meal expense lacking adequate meal description, meal purpose, and guest affiliation.

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- d. One employee was reimbursed a \$66.88 business meal and a \$71 per diem meal on the same day. Another employee attended a three-day conference with meals included, and also reimbursed \$213 per diem meals for the three days.

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

Inspection Trip Program Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over the Inspection Trip Program (Program), as of April 30, 2015. Our review consisted of evaluating internal controls over the Program authorization process, and reviewed administrative practices over vendor agreements. We also evaluated the validity and accuracy of Program expenses, and reviewed reporting practices for completeness.

The Inspection Trip Program provides elected and appointed officials, members of the business and environmental communities, media, and other leading citizens from member agencies with a visual inspection of Metropolitan and State Water project facilities. Metropolitan also encourages Program participation by opinion leaders as a way of informing the public of the goals, objectives, and challenges for Metropolitan and water industries.

Although the framework for an inspection program was conceptualized early in Metropolitan's history, the Board formally codified the rules and regulations in September 1975, when the Board of Directors adopted Resolution 7651. This resolution established rules and regulations governing trips sponsored by members of the Board of Directors over the Colorado River Aqueduct System, State Water Project, and Metropolitan, and State Water Project facilities. This action established the director-sponsored inspection trips, as part of Metropolitan's Administrative Code Section 2610 – Authorization.

Program staff help administer the Program by planning, coordinating, and conducting inspection trips. During Planning, Program staff structure trips to educate guests on Metropolitan operations, develop background information on Metropolitan goals and challenges, and coordinate with External Affairs to form message points on issues facing the water industry.

Inspection trips typically consist of 36 guests and Directors are encouraged to combine trips to maintain cost-effectiveness. Directors are responsible for setting the date, working with Program staff to establish the itinerary, and invite guests and participants. Inspection trips include travel to the Colorado River Aqueduct, Hoover Dam, State Water Project, Bay-Delta, and local one-day regional trips. They can vary in length from one to three days, depending on facilities visited and itinerary. Metropolitan provides guests with meals, transportation, and lodging. The Program conducted 206 inspection trips over the last three fiscal years.

Date of Report: August 31, 2015

Opinion

In our opinion, the accounting and administrative procedures over the Program 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 January 1, 2012 through April 30, 2015.

Comments and Recommendations

RECONCILIATION TO ORACLE

Accounting control is achieved in part by performing periodic reviews and reconciliations of the accounting records. These procedures provide assurance as to the propriety of transactions affecting accounts, identify potential erroneous entries, and describe follow-up procedures for exception processing. For the Program, management should perform formal reviews and reconciliations of expenses incurred, and refunds received for purchases made for inspection trips. During our review, we were unable to locate periodic reconciliations of Inspection Trip Costs Reports to the Oracle system for verification that all costs were accurately recorded. In addition, we noted:

1. Seven canceled airline tickets totaling \$3,101 were not refunded by the carrier and credited to Purchase Card account. We understand these refunds were issued in August 2015.
2. One reimbursable inspection trip completed in October 2014, with a cost of \$3,689 was not billed to reimbursing agency until June 2015.
3. We could not locate the itemized receipts for inspection trip meals totaling \$627.

We recommend management perform periodic, formal reconciliations of expenses for charges to the Program.

COMPLIANCE TO TERMS AND CONDITIONS OF THE AGREEMENT

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate controls over agreement administration. Furthermore, compliance with agreement terms and conditions also ensures that parties fully discharge their duties and obligations, and exercise their legal rights associated with the agreement. Our review revealed:

1. Compliance with Agreement Section 11(c) - Billing and Payment Terms was not evidenced for 25 of 25 invoices tested (100 percent). We noted the agreement stipulated that each invoice contain the phrase: Contractor's invoices shall be signed and certified to be true and correct to the best of Contractor's knowledge and shall include the following information: the maximum amount payable and total amount previously invoiced.

2. Discounts of 2 percent for invoices paid within 20 days were not taken in 19 of 333 payments tested (6 percent). This resulted in \$677 of lost discounts.
3. Invoices for four of 25 payments tested (16 percent) were paid between 41 and 60 days. This is in contrast to the 30 days, as stipulated in the agreement.

We recommend that management remind the agreement administrators to comply with agreement terms and conditions.
