



## **Internal Audit Report for May 2021**

### **Summary**

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One report was issued during the month:

#### **Travel Expense Reports and the iExpense Module of the Oracle Enterprise Business Suite Audit Report**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during May 2021. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

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#### **Travel Expense Reports and the iExpense Module of the Oracle Enterprise Business Suite**

The Audit Department has completed a review of the internal controls over Travel Expense Reports and the iExpense Module of the Oracle Enterprise Business Suite as of June 30, 2020.

### **Scope**

Our review consisted of evaluating Travel Expense Reports for compliance with Metropolitan policy, including the propriety of expenditures, appropriate review and approval, and submission timeliness. We also assessed user security access controls and disaster recovery preparedness.

### **Background**

The Office of the Chief Financial Officer uses the Oracle E-Business Suite to support its core business processes. This system includes functional modules for Accounts Receivable, Projects and Grants, Fixed Assets, Procurement, Inventory, Accounts Payable, and iExpense (travel expense reimbursement component). Each application feeds into the general ledger module, Metropolitan's central repository for financial information. Last upgraded to Release R12.2 in 2016, the system is installed on a UNIX operating system (HP-UX) and maintained by the Information Technology Group.

Policies and procedures that specify reimbursable expenses and define operating practices are divided between the Administrative Code, Operating Policies, and the Travel Guide. Specifically, **Administrative Code** §6320 (updated 2006) establishes Expense Account Regulations. These regulations furnish rules, guidelines, and procedures to assist directors and employees in claiming reimbursement of expenses that further the "interest of the District."

They define such expenses as those made for an activity that has a significant and meaningful link to the purpose, policies, and interests of the District.

In addition, Operating Policy No. C-03 **Reimbursable Expenses** (update May 2005) establishes policies to regulate and track reimbursable expenses, whereas, Operating Policy No. C-04 **Business Travel** (updated May 2005) defines business travel policies. Finally, the **Travel Guide** (updated November 2019) documents the practices and procedures used when traveling on Metropolitan business.

Between April 1, 2019, and June 30, 2020, employees and directors used the iExpense Module to process 5,331 expense reports totaling \$3.3 million. Expenses primarily consisted of per diem allowances (34%), lodging (18%), airfare (17%), mileage (8%), and conference expenses (4%).

### **Opinion**

In our opinion, the accounting and administrative procedures over Travel Expense Reports and the iExpense Module provide for a less than satisfactory internal control structure. This opinion is the result of the high exception rate of non-compliance to established procedures that have an adverse effect on the internal control structure and resulting risk. Further, losses could occur through improper or fraudulent claims. Moreover, we are concerned that these findings are clustered around supervisory review and approval controls. In the performance of control procedures, errors can result from a misunderstanding of instructions, mistakes of judgment, carelessness, or other personal matters. We urge management to take timely corrective action to address these concerns.

In addition, we express concern over Metropolitan's regulations, policies, and procedures regarding these transactions. They involve parts of the Administrative Code, Operating Policies, and the Travel Guide. This separation of rules and instructions is difficult to follow and may have undermined the performance of supervisory duties and responsibilities.

### **Comments and Recommendations**

#### COMPLIANCE WITH POLICIES AND PROCEDURES

Compliance with established policies and procedures is necessary to safeguard company property and protect against abuse, theft, and waste. Policies and procedures that specify reimbursable expenses and define operating practices are divided between the Administrative Code (§6320), Operating Policies (No. C-03 and C-04), and the Travel Guide. Together, they establish qualified reimbursable expenses and describe procedures for preparing, submitting, and approving travel expense reports.

Between April 1, 2019, and June 30, 2020, employees and directors used iExpense to process 5,331 expense reports totaling \$3.3 million. We selected a statistical sample of 67 expense reports from that population, providing a 90% confidence interval and a 10% margin of error.

Our examination revealed the following instances of non-compliance. Individually, these instances of non-compliance do not result in significant loss exposure to the District. However, they do indicate a need to re-emphasize established procedures and contractual requirements to supervisory personnel.

- Forty-nine percent were missing receipts and or supporting documentation, such as per diem authorizations
- Forty-four percent were missing a description of expenses or did not include an adequate description of expenses
- Thirty-two percent were missing the expense location
- Twenty-nine percent did not contain sufficient information to verify the validity of the expense

These high exception rates have an adverse effect on the internal control structure and could result in losses from improper or fraudulent claims. Our tests also noted several instances in which per diem charges appeared unreasonable, and we identified reimbursements for purchases that should have been acquired using a P-Card.

Finally, we express concern over Metropolitan's regulations, policies, and procedures regarding these transactions. They involve parts of the Administrative Code, Operating Policies, and the Travel Guide. This separation of rules and instructions is difficult to follow and may have undermined the performance of supervisory duties and responsibilities.

We urge management to take timely corrective action to address these concerns. We recommend that management remind personnel of the importance of compliance with established procedures. These steps should provide staff with a sufficient understanding of control procedures and explain their purpose. We also recommend management conduct periodic reviews to ensure compliance. Finally, we recommend management consolidate the regulations, policies, and procedures for expense reimbursements.