Office of Budget and Management
Ohio Shared Services Audit

Audit Period: July 2012 to February 2013

Results Summary:

Objective	Conclusion
Processing of Travel and Expense Transactions	**Improvement Needed**
Compliance with Travel Rules	**Improvement Needed**
Monitoring over Travel and Expense	**Major Improvement Needed**

Executive Summary

Background

In 2009, OBM implemented Ohio Shared Services (OBM-OSS) to process financial transactions and provide customer service through their contact center. OBM-OSS partners with state agencies to define and analyze common transactional processes at the agency-level and to develop more efficient, standardized processes. OBM-OSS currently processes accounts payable, travel expense reimbursements, maintenance of the state's vendor database, and provides enterprise content management.

OBM-OSS maintains an electronic travel and expense module in the Ohio Administrative Knowledge System (OAKS). Travel and expense reimbursements for most state agencies, boards, and commissions is managed electronically and processed by OBM-OSS. Travelers submit receipts and backup documentation as e-mail attachments to OSS. In fiscal year 2012 OBM-OSS processed 81,372 travel and expense reimbursements totaling $11,833,130.

During the audit, OIA identified opportunities for the Office of Budget and Management (OBM) to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank OBM staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's processing applications. This work was completed March 2013 through May 2013. The following detailed audit objectives included:

- Evaluate the design and effectiveness of controls over the processing of travel and expense transactions.

- Evaluate the design and effectiveness of controls to ensure compliance with travel rules.

- Evaluate the design and effectiveness of monitoring over the travel and expense function.

Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. No low risk observations were noted during this audit.

Observation 1 – Monitoring of Mileage

Ohio Administrative Code (OAC) requires travel expense reports to indicate all intermediate destinations (i.e., specify intermediate towns and cities but not stops within a town or city) between the commencement and termination of travel, as well as all vicinity mileage after arrival at destination.

The Travel and Expense (T&E) process was designed so that after travel is authorized by the supervisor, expense reports are processed through the system without supervisor review unless the actual amount reported on the expense report exceeds the supervisor approved travel authorization amount by 20%. OSS associates review (pre-audit) all expense reports, except those containing only mileage (below $250) and/or additional expenses below $10.

After payments are issued, the OSS Quality Assurance (QA) group samples expense reports for testing. The QA testing includes only those items that went through the pre-audit process.

During the audit period, 57,495 expense reports were processed through the travel and expense system of which 37,753 (66%) are not reviewed by OSS and agency personnel before being paid. The remaining 19,742 (34%) went through the pre-audit process, and were subject to testing by QA.

During our review of the T&E process, we noted the following:

- Fourteen of 33 (42%) expense reports (that did not go through the pre-audit process) selected for testing did not describe the start/end locations and/or mileage traveled in enough detail to determine that the mileage claimed was reasonable and proper to warrant reimbursement.

- OAKS FIN Manual states that intermediate stops and round trip travel can be referenced in the description, but is not required. This contradicts the OAC mentioned above.

- Mileage is not consistently verified by OSS. Expense reports containing mileage are not reviewed to determine the reasonableness of miles reported for reimbursement.

However, OSS processes and procedures state that during pre-audit reviews, OSS associates should validate the overall mileage calculated by the traveler. In one instance, the T&E auditor approved an expense report that contained unreasonable mileage, causing the traveler to appear to have received a significant overpayment.

Limiting the QA review to only include pre-audited expense reports, failure to list all intermediate destinations on an expense report, and not verifying the travel expense reports for reasonableness, including approximate mileage, increases the risk of undetected fraud, waste, and abuse. Furthermore, the agency supervisors' lack of awareness on actual expense reports submitted by employees increases the risk that payments are made for travel not incurred.

Recommendation

Management should consider:

- Utilizing an online mileage calculator, and/or developing a quick reference guide with commonly traveled cities in Ohio to aid OSS associates in determining whether mileage appears reasonable.

- Expanding the sample population for QA testing to include all expense reports processed in the travel and expense system.

- Exploring the use of data analysis to supplement the methodology QA uses for sampling. Identify criteria that could indicate potential anomalies (i.e. large dollar transactions, possible duplicate expense reports, etc.) to be used as a method for judgmental sampling when selecting items for review.

- Periodically, providing data to the agencies on expense reports processed against travel authorizations. The data provided to the agencies could be used to help improve monitoring, as well as providing travel efficiencies (i.e. identifying employees who are approaching DAS threshold for using a state vehicle, etc.)

- Performing continuous monitoring of mileage, using reporting tools from the Service Management Team (e.g. comparing destination to mileage reported for all expense reports submitted for a time period).

- Updating the OAKS FIN Manual to ensure alignment with the applicable OAC.

- Revisiting the expense report where overpayment appeared to have occurred and working with the agency's fiscal personnel to determine if repayment is necessary.

Management Response

1. OSS will research online mileage calculators to find one acceptable to use for the purpose of the pre-audit process. If a suitable tool is available, T&E associates will use it as a reference when reviewing mileage claims.

2. OSS will explore various methods in order to include expense reports that are automatically approved to the QA testing population; such as, utilizing queries for judgmental sampling and/or increasing their sample size, to determine which of these options is the most feasible.

3. OSS will work with State Accounting to determine if State Accounting is performing the post audit process on transactions that occur within the travel module. If there is not a current process for conducting a post audit review in State Accounting, OSS will research possible methods and the feasibility of incorporating judgmental sampling into the QA sample creation.

4. OSS will communicate to the agency fiscal offices the availability of several queries in OAKS

FIN to assist with monitoring travel occurring within their agency.

5. OSS will review the query created by Service Management for the purpose of the T&E audit. If use of the query for judgmental sampling is feasible, OSS will work to incorporate the query into the QA process. If use of the query is not feasible, we will research other possible methods of monitoring mileage usage and develop a plan to incorporate into the T&E process.

6. OSS will work with the Training Academy to ensure processes documented in the FIN Manual and the Source are aligned with the OBM Travel Rule. The T&E team will develop a plan to implement changes reflected in the documentation into their daily processing of transactions.

7. OSS will revise its current process of notifying state travelers of overpayment to include sending notification of overpayment to the agency fiscal office staff.

Risk*	Remediation Owner	Estimated Completion Date
High	OBM-OSS Sr. Coach	September 2013

Observation 2 – Overpayment Notification

Ohio Revised Code requires an agency responsible to immediately collect an overpayment amount or cause the amount to be collected and shall pay the amount into the state treasury or into the appropriate custodial fund.

During our review, we noted that in instances when a traveler is overpaid, a notification is sent by OSS to the traveler only. The traveler's agency fiscal office is not notified.

Not notifying the traveler's agency fiscal office when an overpayment occurs increases the risk that funds due back to the agency are not received.

Recommendation

Implement procedures to notify the agency fiscal office along with the traveler, when an overpayment of a travel expense occurs. Implementation of these procedures may increase the assurance that state funds are reimbursed appropriately when overpayments occur.

Management Response

OSS will work with OBM State Accounting, Agency Integration, and OSS Communications to develop a list of fiscal staff for each agency. We will also develop a process to ensure the list remains up to date. This list will be accessible to the T&E team.

The T&E team will modify their process to include an agency fiscal representative on all emails to travelers regarding overpayments. A plan will also be developed for the retention of these emails so they are readily available. We will work with the OBM Training Academy to ensure that all T&E processes documented in The Source will be updated to reflect these new practices.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	OBM-OSS Sr. Coach	September 2013

Observation 3 – Access to OAKS

The CFO or agency FIN Security Designee has the responsibility to review existing security roles, add new or update existing roles, delete old roles, and ensure that users of OAKS have access to the system that is commensurate with their job duties.

During our review, we noted that 24 of the 33 users (73%) with access to the 'EX_Auditor' role in OAKS FIN was not appropriate in respect to their responsibilities. In addition, documentation of the OAKS FIN semi-annual employee access review is not maintained.

The EX_Auditor role has the ability to perform the following functions:

- View all travel authorizations and expense reports in the system.
- Process (approve, send back, hold, deny) expense reports waiting for pre-audit.
- Access employee profile information.
- Access all pre-audit functionalities.

Not consistently reviewing the access levels of OAKS users increases the risk of:

- Inappropriate access being granted to current employees.
- Unauthorized access when employees are terminated.
- Disclosure of customer information.
- Fraudulent and/or misstated expense reports being processed.

Recommendation

Continue to conduct periodic reviews of employee access and roles in OAKS and consider performing the reviews more frequently during periods of high turnover. Evidence of the review of system access should also be documented. In addition, establish an internal policy that contains when reviews should be conducted; the frequency; and how the reviews, results, and corrective action should be evidenced and maintained.

Management Response

Management will develop an internal policy that provides guidance for the frequency of reviews, and how the reviews, results and corrective actions should be evidenced and maintained.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	OBM-OSS Administrative Assistant	September 2013

Observation 4 – Policies and Procedures

Policies and procedures help ensure the actions initiated by management to address risks are achieved and the entity's objectives are effectively carried out. Procedures should define roles, designate responsibilities, and detail actions necessary to achieve management's objectives and help ensure compliance with applicable laws and regulations. In addition, detailed procedures help ensure the continuity of the process in the event of personnel turnover.

Several procedures related to Travel and Expense (T&E) are not formally documented, such as:

- The Service Management Team's billing procedures. In addition, the controls in place are not evidenced (documentation is not maintained).
- The T&E Captain's monitoring procedures are not completely documented.
- The Quality Assurance (QA) team's testing procedures are not documented.

Lack of documented policies and procedures may lead to inconsistent processing of T&E billings and QA monitoring activities; negative impact on business continuity; erroneous expense reports being processed; and customers receiving inconsistent levels of service.

Recommendation

Develop written policies and procedures defining individuals' roles and responsibilities of tasks to be performed. The tasks should be sufficient that individuals not familiar with the process can assist and perform the tasks effectively and efficiently. These policies and procedures should be formally approved by management and periodically reviewed for updates. Additionally, documentation should be maintained to evidence control activities (e.g. review of billing reports).

Management Response

Management will develop policies and procedures for the following areas: service management billing, T&E Captain's monitoring, and QA process to include sampling and testing expense reports. Procedures will contain how to perform specific job duties, identify control activities, and the proper forms of documentation to be maintained as evidence of control activities.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	OBM-OSS Sr. Coach	September 2013

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee