

## FINAL MANAGEMENT RESPONSE

January 8, 2025

### OVERVIEW

The Board of Directors for Clean Water Services (District) adopted Resolution and Order No. 25-5 on April 8, 2025, (RO 25-5) to address training, travel, and food expenditures at the District, among other actions. One of the ordered actions was “a fiscal and performance audit of travel and meals by the District for the last three years be conducted by an outside auditor to be managed by the General Counsel and Chief Compliance Officer of the District and provide the findings to the Board as soon as reasonably practicable.” General Counsel contracted with Morones Analytics to perform a forensic investigation of the training, travel, and meal expenditures of the District; to analyze spending trends; and to determine whether reviewed transactions comply with GSA per diem expenditures and District policies for FY 2022, FY 2023, FY 2024, and FY 2025 (first 8 months).<sup>1</sup>

Morones Analytics prepared a draft report dated November 7, 2025. Pursuant to the contract, the District prepared a management response dated December 1, 2025. Morones Analytics then issued a final report on December 12, 2025, that assessed the management response. This is the final management response that addresses the final report.

### ACTIONS TAKEN BY THE DISTRICT SINCE JANUARY 1, 2025 REGARDING TRAINING, TRAVEL, AND FOOD

Through most of the review period analyzed by Morones, the District did not have precise policies for the issues raised by Morones, or the policies in effect at the time have been revised, often substantially. All District policies and practices that address training, travel, and meal expenditures have been revised or instituted since January 1, 2025. Additionally, RO 25-5 ordered additional fiscal requirements, particularly for executive spending. The actions the District has taken since January 1, 2025, to address training, travel, and meal expenditures should be reflected in the final Morones Analytics report.

1. RO 25-5 ordered that absent compelling circumstances such as an emergency, all local meal purchases by executive management team members are not reimbursable by the District, and all executive management team members shall return purchasing cards to

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<sup>1</sup> The General Counsel and Chief Compliance Officer was out on medical leave at this time. The Acting General Counsel engaged Morones Analytics and has administered the contract and the action item.

Finance. Pursuant to RO 25-5, all purchasing cards were returned to the District by executive management, defined as director and above.

2. Pursuant to RO 25-5, Finance reviews and reports on monthly executive expenditures. These reports are provided to the General Counsel and Chief Compliance Officer, with quarterly reports given to the Board.
3. Pursuant to RO 25-5, District developed written guidelines on allowable travel and training for employees and included in the revised Travel and Training Policy.
4. Pursuant to RO 25-5, Legal and Finance completed training for all District employees regarding compliance with laws and District policies related to expenditure of District resources. This training will continue as part of onboarding for new hires.
5. Pursuant to RO 25-5, all food purchases are now coded to a new object code (52496 – Food Expenditures) in operating programs in the 2026 budget cycle. Food costs can no longer be charged to capital and operating project codes.

## **6. Travel and Training Policy: FA103**

Pursuant to RO 25-5, the District overhauled its Travel and Training Policy, which first went into effect on March 1, 2012. The new policy, Travel and Training Policy FA103, became effective May 1, 2025. Pursuant to RO 25-5, revisions were made to the policy on June 27, 2025, July 1, 2025, and September 5, 2025, based on review and recommendations by the District General Counsel and Chief Compliance Officer. This policy was not in effect for the review period analyzed by Morones Analytics (July 1, 2021, through February 28, 2025).

FA103 established Travel/Training Coordinators — primarily members of the Administrative Services programs — who are trained in the process and practices of District travel and training and authorized to purchase travel arrangements, training registrations, and fees using their District purchasing card. All other District-held purchasing cards are locked down, prohibiting charges to restaurants and airlines.

All District employees are currently required to complete a Travel/Training Request Form, unless the training does not require travel (e.g., virtual training or external trainers that come to the District). The form is completed with assistance from the employee's assigned Travel/Training Coordinator. This form includes a cost estimate for the training; it's signed by the employee and approved by the employee's direct supervisor and department Director, Executive Leadership Team member, or CEO if required by the policy. The Chief Financial Officer approves travel request forms for the Chief Executive Officer/General Manager and Board members. The training is then entered into Oracle Learning Management (OLM) and assigned a training number for tracking purposes.

Meals for overnight travel are reimbursed at the federal per diem rate for the destination city. If a meal or meals are provided with the lodging, business meeting, workshop, seminar, or conference registration, the per diem allowance for that meal or meals will be deducted from the total per diem allowance. The policy no longer allows reimbursement of local business meeting meal expenses off-site.

Once travel is completed, the employee works with their Travel/Training Coordinator to complete a Travel/Training Reconciliation Form. This form details all travel expenses related to the training, and receipts must be attached. The form is signed by the employee certifying that the costs claimed for reimbursement are the actual costs incurred during the approved travel/training period and in compliance with District policy. The supervisor must sign, confirming they have reviewed the reconciliation and verifying the expenses incurred align with the approved travel/training request and District policy. The Chief Financial Officer approves the final reimbursement form for the Chief Executive Officer/General Manager and Board members.

The Travel/Training Request Form, Travel/Training Reimbursement Form, and all related receipts are turned into Finance once the training is completed. Finance reviews all approval and reimbursement forms for compliance with the policy before final reimbursement is paid to the employee. These records are filed with Finance and are retained in compliance with state retention laws.

## **7. Procurement Card (P-card) Policy: FA101**

The Procurement Card (P-card) Policy (FA101), effective June 12, 2023, and revised on July 22, 2024, limits the purchase of airline tickets and food for meetings to the administrative staff.

The P-card Program Administrator reviews all P-card transactions for compliance with this policy, including travel/training requests, required detailed receipts, proper coding, and documented prior approval for meals and refreshments and travel/training requests. Finance management audits and approves monthly P-card activity for compliance with District policy.

## **8. Meals and Refreshments Policy: FA106**

The District adopted a Meals & Refreshments Policy (FA106), effective January 1, 2025. This is the first policy approved by the District that establishes minimum standards for payment or reimbursement of reasonable expenses for meals incurred during District business not associated with travel and training. Pursuant to RO 25-5, the policy was revised on July 1, 2025, and September 5, 2025, based on review and recommendations made by District's General Counsel and Chief Compliance Officer.

Food and beverage expenses unrelated to travel are allowable for employees when furnished on District premises or off-site and furnished for the employer's convenience. This policy encompasses any meeting, training, or event where the meal is a necessary and integral part of a business meeting and not a matter of personal convenience; qualified events should take place over an extended period of time, and the agenda should include a working meal to satisfy the requirement that the meal is a part of a business function.

Food and beverage expenses not associated with travel and training are per person and shall not exceed the GSA per diem rates for Portland, Oregon, based on the meal being provided. All food purchases require supervisor approval in advance; purchases over \$500 require approval by an Executive Leadership Team member.

Food purchases are coordinated with the Administrative staff in each group using District-issued P-cards that are open to allow for restaurant vendor purchases. The following information is required to be included with the monthly P-card statement reconciliation:

- 1) Date of business meal or refreshments
- 2) Place/location
- 3) Person(s) with whom the business meal/refreshment was consumed
- 4) Affiliation
- 5) Business purpose – agenda must be attached
- 6) Itemized breakdown of the meal/refreshment charges
- 7) Total amount incurred, including gratuity
- 8) Response to the following two questions:
  - a) Is the meal associated with the active conduct of the employer's business?
  - b) Is the meal to be consumed during or directly before or after a substantial business discussion?

## **9. Private Vehicle Mileage Reimbursement Policy: FA104**

The Private Vehicle Mileage Reimbursement Policy (FA104) was revised on May 1, 2025, and July 10, 2025. The use of a personal vehicle to conduct official District business will be reimbursed at the IRS standard mileage rate. The purpose of this reimbursement is to compensate the employee for traveling distances beyond the employee's normal commute. Daily commute miles are deducted from business miles claimed, regardless of the day the business travel occurs. Finance audits personal mileage submitted as part of the Travel/Training Reimbursement, separate personal mileage reimbursement requests for compliance with the policy, and appropriate deduction of daily commute miles.

## **RESULTS OF FORENSIC INVESTIGATION**

This next section responds to the results that Morones noted in its draft report.

### **1. Total Expenditures by Employee**

The contract with Morones Analytics required the contractor to summarize total training, travel, and meal expenses by employees attending the training. Morones stated it was unable to summarize these expenses by employees because the District's financial reports do not include sufficient information. (Report, Page 9)

- Management Response: The District will update the Travel/Training Policy to require all employees, including executives and Board members, to complete a Travel/Training Request Form for all training attended, including online training. The District will use the Oracle Learning Management system as the source point for all District travel. Approved travel will be assigned an OLM number, and the system will be updated to list all final costs for each training and reimbursements received by the employee. The Travel-Training Plan History ("Travel-Training Report") will be the basis of identifying all training events attended by employee and the related cost. This will improve the transparency of training attended, employees attending, and the total cost of the training.

### **2. Yearly Computer Expenses for the former CEO:**

Morones identified multiple purchases of computers for use by the former CEO. (Report, Pages 11-12)

- Management Response: When the former CEO left the organization, all computers were returned to the District. Computers that are compatible with current security requirements and software have been repurposed for District use. The CEO/GM is now on the same computer replacement schedule as all employees.

### **3. Receipt Submission**

Of the 389 P-card transactions reviewed, Morones observed 18 transactions, or 4.6%, that were not supported with a receipt. Submitting a receipt is a requirement of the District's Procurement Card (P-card) Policy. (Report, Pages 12-13)

- Management Response: The District is upgrading the Oracle P-card system to require a receipt on each transaction line before the employee can submit the monthly report for supervisor approval. All monthly reports are audited by the P-card Program Administrator for compliance with the policy, including attached

receipts. The monthly reports are also reviewed by Finance management for compliance with the policy.

#### **4. Prior Approval**

During review of P-card charges, Morones observed that approved Travel/Training Request Forms are not consistently included with Travel Reconciliation Forms and supporting receipts. (Report, Page 13)

- Management Response: Travel/Training Coordinators are now required to attach a copy of the approved Travel/Training Request Form with receipts for training registration, airfare, and lodging deposits. The Travel/Training Request Form, Travel/Training Reimbursement Form, and all related receipts are submitted to Finance once the training is completed. Finance reviews all approval and reimbursement forms for compliance with the policy before final reimbursement is paid to the employee. These records are filed with Finance and retained in compliance with state retention laws.

#### **5. GSA Meal Per Diem Rate Analysis**

Morones identified meals purchased exceeding the GSA meal rate and meals provided while on overnight travel for a business meeting. (Report, Pages 13-14)

- Management Response: The current Meals and Refreshments Policy limits meal expenses for District meetings to the GSA rate. District employees on overnight travel are limited to reimbursement for meals at the GSA daily per diem rate. Executive staff no longer have District-issued P-cards, and only assigned Administrative staff are permitted to purchase food for meetings, events, and catered lunches on District-issued P-cards. Restaurant merchant codes have been blocked for all other District P-cards.

#### **6. Business Meetings During Travel**

Morones observed business meeting expenses charged during overnight travel that, while allowed under the policy at the time, required CEO approval. (Report, Pages 14-16)

- Management Response: Most, if not all, business meetings charged during overnight travel were via P-card. The P-card policy requires review and approval of P-card purchases. Executives no longer have P-cards, and only assigned Administrative staff are allowed to purchase food with a P-card. The District will

consider updating the Travel and Training policy to formally prohibit meal reimbursement for business meetings during overnight travel.

## **7. GSA Lodging Per Diem Rate Analysis**

The Travel/Training Policy does not require lodging expenses to comply with GSA lodging per diem rates. (Report, Page 16)

- Management Response: The District does not require the use of GSA lodging per diem rates when securing lodging. However, Travel/Training Coordinators are required to use room block discounts when available. Since room blocks fill quickly, Travel/Training Coordinators may reserve rooms for travelers prior to department manager/CEO approval if the reservation is fully refundable. Lodging may be reserved directly for the hotel conference site, if applicable, and not deemed excessive as determined by the CFO. At times, these rates are higher than other area hotels; however, the rates may be determined acceptable for convenience purposes and to avoid additional transportation expenses.

## **8. General Ledger Coding**

In the review of nearly 400 P-card transactions covering \$115,000, Morones did not identify any charges incorrectly coded to training, travel, or meals. However, \$31,000 in food-related expenses were not recorded to the expected Travel Expense account (52485) or Other Materials & Services (Food) sub-account (52495). (Report, Page 16)

- Management Response: The District now uses a separate object code to track food purchases (52496) to enhance compliance monitoring and promote greater transparency. All food purchases for the District must be coded to this account in the operating program and not charged to capital projects.

## **9. Meals for Retirement Events**

Morones noted that the Meals and Refreshments Policy defines retirements as qualifying events in which food and beverage expenses are allowed. (Report, Pages 16-17)

- Management Response: Pursuant to the new Meals and Refreshment Policy, the District allows retirement gatherings, but current practice is that only snacks such as cake, cookies, or beverages are offered. The District will update its policy to include the practice. Any meals provided would be limited to the GSA meal rate per person.

## **10. Mileage Reimbursements**

Morones noticed inconsistencies in support for mileage reimbursements. Most, but not all, included online maps to document mileage. Morones also observed variations in how employees calculated mileage to and from the airport, with some not deducting daily commute miles. (Report, Page 19)

- Management Response: The Private Vehicle Reimbursement Policy requires an online map to document mileage. The District will update the Travel and Training Policy to require all employees to submit online maps to support mileage claimed for reimbursement. Daily commute miles are deducted for all travel. Current practice is to require documentation for all mileage reimbursement.

## **11. Employee Air Travel Booked with P-card:**

Morones observed employees using their District P-card to book air travel directly with airlines, rather than using the District's travel contract or travel agent. Morones found it was unclear if the ticket price would be less if booked through the District travel contract. (Report, Pages 19-20)

- Management Response: Pursuant to the new Travel and Training Policy, employees can no longer purchase airline tickets using District-issued P-cards. The Travel/Training Coordinator obtains flight quotes from the District's travel agency for economy class and can purchase them using a District-issued P-card. If the employee purchases their own airline ticket, the cost reimbursed is limited to the price of the ticket or the original quoted price obtained from the District travel agency, whichever is lower.

## **12. Training/Travel Charges not in Travel-Training Report**

Morones identified multiple instances of executives and Board members attending training that required overnight travel with no Travel-Training Report. (Report, Pages 20-21)

- Management Response: The new Travel and Training Policy requires all staff, including executives and Board members, to complete a Travel/Training Request Form and Travel/Training Reimbursement Form documenting authorized approval.

## **13. Business and Internal Meeting Meal Expenses**

Morones identified that prior to January 1, 2025, the District's travel/training policy allowed business meals if the participants and purpose were identified and allowed for meals at internal meetings if support was provided for the expense, including the

identity of the participants, purpose of the meeting, and the reason the District provided the food or meal. Morones also noted that the District specifically addresses these issues in a new Meals and Refreshments Policy, but identified Clackamas Water Environmental Services' (Clackamas WES) food purchase policy as an example of expanded criteria to authorize food purchases. (Report, Pages 22-23)

- Management Response: According to the updated Meals and Refreshments Policy, all food and beverage expenses are per person and shall not exceed the GSA per diem rates. On rare occasions, an employee may have a business need to purchase a business meal. The employee charging the meal must get supervisor approval before the meal, then document the District's business purpose, the date, place, amount, attendees, and an itemized receipt. Separately, the District will update its Authorization for Food Purchase forms to be completed by Administrative staff before purchasing food for an event. The District will also update the Meals and Refreshments Policy to better define the "extended period of time" that would qualify meals to be provided by the District, with language similar to Clackamas WES.

#### **14. Potentially Unnecessary or Non-Reimbursable Expenses**

Morones identified a few potentially unnecessary or non-reimbursable travel expenses in its analysis and recommends adding language to the Travel/Training policy regarding certain travel-related expenses. (Report, Page 23)

- Management Response: The District will add language in the Travel/Training Policy to address potentially unnecessary or non-reimbursable travel expenses, stating travel-related expenses should be compliant with ethics laws, and all travelers should exercise good judgment, regard for economy, and recognition of proper use of public money while traveling or incurring expenses in connection with District business.

#### **15. Local Meals Attended by Diane Taniguchi-Dennis and/or Jack Liang:**

Morones analyzed local meals attended by the former CEO, Diane Taniguchi-Dennis, and the former Chief Business Operations Officer, Jack Liang. Morones found a significant number of local meals attended by one or both former employees. Morones analyzed the expenditures and found that most meals were significantly more than the GSA rates. Morones also identified insufficient documentation or receipts for the expenditures. (Report, Pages 23-27)

- Management Response: Except under extraordinary circumstances, executive employees are no longer allowed local meals. All P-cards have been recalled from executive employees. Therefore, this situation should not occur again.

## **CONCLUSIONS AND RECOMMENDATIONS BY MORONES**

Morones concludes the report with nine recommendations based on its observations and review. (Report, Pages 27-28). Following are the recommendations and the management response.

- 1. The District update its Travel/Training Policy to include all employees and District Board of Directors when acting on behalf of Clean Water Services and/or as a District public official with a clear approval process.**

- Management Response: The Travel and Training Policy has always applied to the CEO. It now clearly states that it applies to the Board, although it is the District's position that it always applied to the Board. The new Travel and Training Policy and internal practices are now clear that prior authorization is required. All employees and Board members are required to complete the Travel/Training Request and Reconciliation forms to confirm travel/training expenditures comply with District policies. The District Travel/Training policy will be updated to establish a clear approval process for the CEO and Board members. The Board, as a group, has agreed to Board travel in work sessions. All employees and Board members are required to complete the Travel/Training Request and Reconciliation forms to confirm travel/training expenditures comply with District policies before any reimbursement.

- 2. Travel/Training Request and Reconciliation forms are required for all travel and training.**

- Management Response: The current policy requires request and reconciliation forms for all travel and training except online training and at District offices. The District will change its policy to require Travel/Training Request and Reconciliation forms for all training, including online. Requiring forms for all training courses will improve the completeness of reporting for travel/training-related expenses, enhance compliance monitoring, and promote greater transparency.

**3. All air travel should be reserved and billed directly to the District through the District-approved travel agency.**

➤ Management Response: The District has taken this recommendation under advisement to determine if it is practicable and appropriate.<sup>2</sup> The Travel/Training Coordinator is now required to obtain flight quotes from the District's travel agency for economy class and can purchase tickets using a District-issued P-card. If the employee purchases their own airline ticket, the cost reimbursement to the employee is limited to the price of the ticket or the original quoted price obtained from the District travel agency, whichever is lower.

**4. Revise the travel and training policy to require that lodging booked through a conference or seminar sponsor be at the lowest available rate for the event.**

➤ Management Response: The District agrees that the policy should be updated to require the room to be booked at the conference at the lowest available rate, except when reasonable accommodation is required for medical conditions.

**5. The District should go back to its prior policy of prohibiting the use of District purchasing cards for lodging expenses incurred at the time of travel.**

➤ Management Response: No executive staff members hold P-cards anymore. There may be a need for non-executive staff to check out travel P-cards to be able to travel. Expense reconciliation will address any potentially inappropriate expenditures. The District will take this recommendation under advisement to determine if it is practicable and appropriate for other employees.

**6. The District should revise the meals policy to define a “business meal” and clarify if employees dining together while traveling for District business qualifies as a business meal.**

➤ Management Response: The District will revise its Travel and Training Policy to clarify that it only reimburses meals while traveling at per diem and remove business meetings.

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<sup>2</sup> RO 99-48 provides that travel awards earned by officials and employees on official business, including frequent flyer miles, compensation for being displaced, and related items earned by officials and employees on official business, are declared to be a part of the salary and benefits to which such officials and employees are entitled as compensation. District cannot find any record that contradicts this resolution and order.

**7. The District should clarify if mileage to and from the airport should be reduced for the employees' daily commute mileage.**

- Management Response: The Travel/Training Policy will be updated to clarify that mileage to and from the airport should be reduced by the employee's daily commute mileage.

**8. The reconciliation process should ensure that all training, travel, and meal expenses are recorded in the Travel-Training Report so the District has greater transparency of such expenses.**

- Management Response: The District will update the Travel/Training Policy to require all employees, including executives and Board members, to complete a Travel/Training Request Form for all training attended, including online training. The District will use the Oracle Learning Management system as the source point for all District travel. Approved travel will be assigned an OLM number, and the system will be updated to list all final costs for each training and reimbursements received by the employee. The Travel-Training Plan History ("Travel-Training Report") will be the basis of identifying all training events attended by employee and the related cost. This will improve the transparency of training attended, employees attending, and the total cost of the training.

**9. The District requires an Authorization for Food Purchase form consistent with Clackamas WES requirements.**

- Management Response: The District will update its Authorization for Food Purchase forms to be completed by Administrative staff prior to purchasing food for an event. The District will also update the Meals and Refreshments Policy with language similar to Clackamas WES to better define the "extended period of time" that will qualify meals to be provided by the District.

### **ASSESSMENT OF MANAGEMENT'S DECEMBER 1, 2025, RESPONSE**

Morones Analytics provided an assessment of the December 1, 2025, management response. In sum, the District agrees with the assessment and will follow the guidance provided.

### **CONCLUSION**

The District appreciates the thoughtfulness and diligence of the work done by Morones Analytics to review thousands of line items of expenditures to provide a meaningful report. The District has taken great strides already to address the issues raised in the report and will continue to work on the issues that have not already been addressed.